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CIVIL GRAND JURY

REPORTS



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**City and County of
San Francisco, California**

1998 - 1999

CIVIL GRAND JURY

REPORTS



City and County of
San Francisco, California

CITY AND COUNTY OF SAN FRANCISCO GRAND JURY

OFFICE

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June 30, 1999

Hon. Alfred Chiantelli, Presiding Judge
Superior Court of the City & County of San Francisco
400 McAllister Street
San Francisco, California
94102

Dear Judge Chiantelli,

On behalf of the 1998-1999 San Francisco Civil Grand Jury, it is my duty and pleasure to present to you these reports which are the culmination of our efforts over the past twelve months. Each and every juror has found it to be not only a rewarding experience, but a unique opportunity to be of service to the Court and our fellow citizens of San Francisco,

We were fortunate to have amongst our jurors persons of a myriad of backgrounds and life experiences to bring to the process. This, coupled with their tireless efforts in the production of their respective reports, have produced a product which we feel will be of assistance to those agencies who were the subject of the reports.

Our smooth functioning during the year and assistance in the preparation of these reports could not have been possible without the unfailing support of the Superior Court Staff. Gary Giubbini, Grand Jury Coordinator, at all times, provided us with assistance and advice which was invaluable. He is really the person who makes the system work.

Mike Tamony and Alan Carlson always made themselves available to the Civil Grand Jury for the rendering of advice of a more technical nature.

As you are well aware, we did encounter one (out of all the agencies that we were in contact with) agency which absolutely "stone-walled" our inquiry which was the San Francisco Unified School District and it's Superintendent, Dr. Rojas. We initially sought the assistance of the San Francisco City Attorney for a legal opinion as to whether or not the SFUSD was complying with the law with regard to Bi-lingual Education and the Lau consent Decree.

All citations hereafter referred to are from the **CITY AND COUNTY OF SAN FRANCISCO CIVIL GRAND JURY MANUAL (1998-1999)**

"The city attorney is the civil legal advisor to the City and County and all of it's departments, officers and commissions. In San Francisco, the city attorney acts as county counsel.....Inasmuch as the city attorney acts as legal advisor to the Grand Jury, he or she is bound by both the secrecy

restrictions on Grand Jury matters and the confidentiality of the attorney-client relationship.”
(The Grand Jury and the City Attorney, pg. 49)

In a later section, the Manual provides as follows:

“Sec. 934. ADVICE FROM JUDGE, DISTRICT ATTORNEY OR COUNTY COUNSEL.
The grand jury may, at all times, ask the advice of the court, or the judge thereof, or of the district attorney, or the county counsel. ...”

“Sec. 936.5. SPECIAL COUNSEL AND INVESTIGATORS; EMPLOYMENT BY
PRESIDING JUDGE OF THE SUPERIOR COURT; HEARING; FINDINGS; NOTICE;
APPEAL; CERTIFICATION.

(a) When requested to do so by the grand jury of any county, the presiding judge of the superior court may employ special counsel and special investigators, whose duty it shall be to investigate and present the evidence of the investigation to the grand jury.

(b) Prior to the appointment, the presiding judge shall conduct an evidentiary hearing and find that a conflict exists that would prevent the local district attorney, the county counsel, and the Attorney General from performing such investigation.”

As your honor is well aware, the City Attorney declined to give the Grand Jury assistance with regard to the S.F.U.S.D. declaring that since the district was already a client, giving advice to the Grand Jury would present a conflict in interest.

We were next directed to the attorney in the San Francisco District Attorney’s office who dealt with the criminal Grand Jury. He declined to assist the Civil Grand Jury on the basis that he did not possess adequate legal background on the civil side.

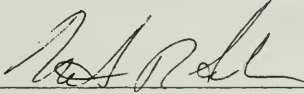
We then sought the assistance of the Attorney General of the State of California. That office similarly declined to offer assistance.

As it turned out for this years report, no legal assistance was ever rendered to the Civil Grand Jury although it clearly appears from the above citations that the Grand Jury is entitled to the benefit of counsel, from one source or another, as a matter of right. It is respectfully submitted that at the very beginning of it’s term, the 1999-2000 grand jury should be advised that :

1. It is entitled to counsel from one source or another.
2. That if and in the event the City Attorney declines to provide advice on the basis that there is conflict in interest, that request be made forthwith to the Attorney General for such legal advice.
3. That if, and in the event, the Attorney General declines to provide such legal advice, the Presiding Judge conduct a hearing as provided in Sec. 936.5 (b), thereafter making an order providing for appointed counsel for the grand jury.

We wish to thank you for the advice you have provided to us over the year and your assistance to us in carrying out our function.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "M. R. Farrah", written over a horizontal line.

MICHAEL R , FARRAH , Sr., Foreperson
1998-1999 Civil Grand Jury

**Members of the 1998-1999
San Francisco Civil Grand Jury**

Michael R. Farrah, Foreman

Patricia A. Mazzucco, Secretary

Joseph Chow

David R. Dawdy

Kathleen P. Duffy

George E. Frank

Barry I. Gruber

Edward Holm

William Kelly

Jessica Lindsey

Jay Martin

Maria Lourdes-McIntyre

Janet E. Nedean

John H. Norcop

Ben D. Ortman

Peter A. Samuels

Laura J. Tudisco

Bernard J. Vash, Sr.

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LAGUNA HONDA HOSPITAL

SUMMARY

The 1998 - 1999 Civil Grand Jury (CGJ) investigated options for the replacement process of Laguna Honda Hospital (LHH). Options included: 1) Rebuilding the entire facility with the current 1200 beds; 2) Rebuilding the entire facility with fewer than 1200 beds; 3) Rebuilding the facility with more than 1200 beds; 4) Rebuilding only patient care sections of the facility; 5) Selling or reusing portions of the facility's 64 acres to defray costs. (See Appendix A: Options for Laguna Honda Hospital White Paper).

BACKGROUND

Laguna Honda Hospital is in disrepair and in violation of federal regulations. Without compliance on issues ranging from patients per ward and structural and seismic repair, the hospital will lose the integral Federal Funding that covers the majority of expenses for patient care. Without these federal monies, the hospital will not be able to function solely with local funding, thus reducing care services and patient population and, perhaps, closing of the hospital. There are no other facilities for these patients to be transferred to. It has been forecasted that in the next ten to fifteen years, there will be a marked increase in the public that will need a facility like LHH.

Patients Per Ward

Federal regulations call for a maximum of 2 - 4 patients per room. LHH has been operating with open wards of 20 - 30 patients per ward since the main buildings of Spanish Revival Style were opened in 1926. The open wards offered easy access for medical representatives and a communal atmosphere that most patients enjoyed.

PROCEDURES

The CGJ has made two visits to LHH. The latest visit was with Lawrence I. Funk, Executive Administrator, who explained why a General Obligation Bond (GOB) should be passed to finance rebuilding the facility. We took a tour of the entire plant and could see where repairs were needed.

The Laguna Honda Hospital Replacement Committee, headed by Louise Renne, City Attorney, and Mitchell Katz, Director of Public Health, made exhaustive studies into how LHH could be rehabilitated. In addition to the main buildings with their open wards, there is another structure, Clarendon Hall, which was built in 1909 and is used for assisted living patients. It was their recommendation that they should be torn down and new facilities constructed. The committee's report was sent to the San Francisco Health Commission, which approved it and sent it to the Board of Supervisors where it was sent to the Finance and Labor Committee. (See Appendix B, Report on the Placement of Laguna Honda Hospital). This committee must take action by June 15, 1999 and the full board has until July 19, 1999 to pass an ordinance calling for a GOB Election. July 23, 1999 is the last day for submission to the Director of Elections.

FINDINGS

The cost factor is the biggest obstacle facing support for the GOB. The bond measure is for \$437 million¹ - the largest ever - but \$65 million less than one proposed in July 1998 - which was dropped after tenants groups promised to fight the measure unless they were protected from possible rent increases. The planning committee hopes to defray some of the costs by using tobacco monies. The City should receive about \$585 million over a 25-year period.

¹ As of the week of June 10, 1999, the Bond Measure Dollar Amount has changed. However, opposition to the Bond Measure has not changed even though the dollar amount has been reduced to \$299 million.

However, there is no assurance of when or how much the City will get or if LHH is to receive the entire amount - as recommended by Louise Renne. The committee is also seeking to obtain some funding from state and federal sources, but nothing is guaranteed at this time. Since a GOB requires a 2/3 approval by the electorate, it will need cooperation from all groups to pass. A revenue bond, which would only require a simple majority of the voters was rejected as it would cost \$50 million more.

RECOMMENDATIONS

LHH needs to be rebuilt now. The time for procrastination is over. Federal Funding is essential to keep LHH open.

The Mayor and the Board of Supervisors must support the proposed bond issue. Passage of the Proposition may be vital to the continued long term well being of many of the City's residents, especially its senior citizens.

A solution must be found to avert the threatened confrontation between landlord interests and tenant groups. The problem of who will bear the brunt of the increase in taxes imperils the passage of the bond issue.

All possible steps must be taken to ensure that the tobacco settlement money will not be diverted to other uses. Without that source of funds, rebuilding a 1200 bed facility seems unlikely.

Other proposed bond measures should be held in abeyance until funding of Laguna Honda's rebuilding is assured. Competing bond issues on the same ballot could spell the death knell of the LHH measure. It would be especially unwise to include a bond measure for parks and recreation on the next ballot.

The ballot measure should not be modified in a manner which will deliver to the City a facility which will fall short of the capacity of the facility now planned.

San Francisco should attempt to gain corporate backing for the facility to assist in financial aspects of the project in addition to funding from state and federal sources.

A positive Public Relations campaign needs to be implemented so that the public understands the necessity and benefit to the City for keeping LHH.

RESPONSES REQUIRED

Mayor

Board of Supervisors

Health Commission

City Attorney

Laguna Honda Hospital

APPENDICES

Appendix A

Options for Laguna Honda Hospital White Paper

Appendix B

Report on the Placement of Laguna Honda Hospital

APPENDIX A



**OPTIONS FOR
LAGUNA HONDA HOSPITAL
WHITE PAPER**

**Mitchell H. Katz, M.D., Director
Department of Public Health
December 10, 1998**

Executive Summary

This White Paper discusses the current situation at Laguna Honda Hospital and presents the options for rebuilding the institution.

Laguna Honda Hospital is a 1200 bed San Francisco county-run skilled nursing facility (SNF) in the Forest Hills neighborhood. Most Laguna Honda residents require intensive nursing assistance for the activities of daily living: eating, bathing, relieving themselves and dressing. The current average age of a Laguna Honda resident is 72.

The need for long-term care (both community-based and hospital-based) will grow over the next two decades. An estimated 6% of San Franciscans aged 18 – 64 and 23% of San Franciscans over the age of 65 have mobility problems or limitations in caring for themselves. This translates to approximately 57,000 lives in the year 2000. Some of these individuals can be cared for in their homes or in less intensive settings while others will require skilled nursing in institutions such as LHH. By the year 2000 there will be a shortage of 271 SNF beds in San Francisco. Estimates are that this shortage will increase to 2,380 beds by the year 2020 assuming that SNF beds continue to be used at the same rate (i.e., 33 SNF beds for every 1000 persons aged 65 and older). LHH is a critical component of San Francisco's long-term care delivery system.

Although LHH has a well-deserved reputation for providing excellent medical and nursing care, it has been criticized by federal regulators due to the limitations of its physical plant, specifically:

- the principal patient care buildings are 70 to 90 years old and have outlived their useful life,
- LHH's open ward configuration, which accommodates 30 patients in a single room, is not within current federal guidelines which call for housing no more than 4 patients in a single room,
- LHH does not conform to seismic safety standards for hospital construction and was not designed to withstand major earthquakes, and
- needed maintenance has been deferred or under-funded for several years.

The Department has explored several options to ensure that residents have access to needed skilled nursing services. The options are not mutually exclusive and include:

Options Considered

1. Decrease the number of residents (the census) at LHH.
2. Refurbish existing LHH to conform with 4 bed wards and dining/activity areas.
3. Utilize existing beds at acute care institutions.
4. Build several smaller facilities throughout the City.

5. Sell the land of LHH and locate the facility elsewhere in the City where property values are lower.
6. Sell or rent a portion of the land of LHH to obtain additional revenue.
7. Increase use of community-based long-term care options.
8. Place residents who need long-term care out of county.
9. City phases itself out of the institutional long-term care business.
- 10.¹ Build a new Laguna Honda Hospital at the current Forest Hills site.
 - 10a. Build a 1200 bed replacement facility.
 - 10b. Build an 800 bed replacement facility.
11. Pursue State and Federal financing to help rebuild LHH.
12. Use Tobacco Settlement Funding to finance rebuilding of LHH.

The advantages and disadvantages of each option are assessed. As outlined in the briefing paper, many of these options are not advantageous because they might result in an unacceptable reduction in the number of skilled nursing beds or are more costly. Based on the projected need for institutional-based long-term care services and the Department's assessment of each option, the following recommendations are made:

Departmental Recommendations

1. Rebuild LHH on the existing Forest Hills site.
2. Delay seismic upgrade of administrative space until the next city-wide seismic upgrade bond – saving \$38 million from original LHH rebuild scenario.
3. Work collaboratively with City's Long Term Care Pilot Project Task Force to increase home and community-based long-term care services and decrease reliance on institutional placements.
4. Use Tobacco Settlement Funding to rebuild LHH.
5. Pursue Federal & State to help cover the the rebuilding costs.
6. Begin to build a consensus on the right size for a new LHH, by arranging a series of input meetings with interested parties including elders and disabled persons, their advocates and service providers, union leaders, members of the business community, and civic leaders. Feedback will be brought to the Health Commission.

Options for Laguna Honda Hospital White Paper

Following the decision not to pursue a ballot measure on rebuilding Laguna Honda Hospital (LHH) for November 1998, we have a window of time to reconsider the various options for LHH.

The purpose of this document is to 1) review our current situation with regard to LHH, 2) consider all available options for LHH, and 3) critically review the pros and cons of different options.

The current situation of LHH

LHH is a 1200 bed San Francisco county-run skilled nursing facility (SNF) in the Forest Hills neighborhood. Although it has a well-deserved reputation for providing excellent medical and nursing care to indigent and working class residents of San Francisco, it has been under attack from Federal regulators, specifically the Health Care Financing Administration (HCFA) and the Department of Justice (DOJ) due to the limitations of its physical plant.

Physical Plant of LHH

Laguna Honda Hospital consists of a main building with various wings that house patient care wards and support services, several utility buildings and Clarendon Hall. The principal patient care buildings are 70 to 90 years old. They have outlived their useful lives and cannot cost-effectively accommodate modern health care technologies. Most buildings have not had major upgrades in the last 35 years, although almost all other health care institutions in the Bay Area have undergone several expansions and remodeling projects.

The Hospital's main building is designed with open wards which accommodate 30 patients in a single room. LHH is the last skilled nursing facility in the United States to operate open wards of this size. Current HCFA guidelines call for no more than 4 persons in a room. Thus, to continue the operation of LHH, the Department of Public Health requires a waiver from HCFA. This waiver can be revoked at any time. In the absence of the waiver, we would be unable to bill Medicaid and Medicare, resulting in the loss of \$91 million dollars and making it impossible to continue operation of LHH. HCFA surveyors have been extremely critical of the open ward design of LHH during the 1998 inspections. In their opinion, the open wards deny residents their rights to privacy and dignity. DOJ has also been critical of the large, open wards for failing to afford privacy and for being too noisy such that ill patients cannot get sufficient rest.

In addition to the open wards, there are other important ways that LHH is not in compliance with existing long-term care standards. These standards call for dining halls for residents. Given that most LHH residents are in wheel chairs, such dining halls need to be available on or near the ward where the resident resides. Because LHH was built as an acute care hospital, it was envisioned that residents would be eating at their beds. While there are several large rooms that could be used as dining halls at LHH, the amount of time necessary to move non-ambulatory residents to these large halls is prohibitive. The floor plan at LHH with its long distances between buildings and few elevators, which run slowly, all work against having sufficient staff to move residents to existing halls. HCFA has wanted us to further reduce the census at LHH so as to accommodate dining halls on the wards.

The HCFA surveyors have also criticized LHH for its lack of separate activity areas. This is closely related to the dining hall issues, as most SNF's are built with multipurpose rooms next to the wards that can be used for both dining and therapeutic activities.

Seismic issues at LHH

The main hospital building and Clarendon Hall were not designed to withstand earthquakes and do not conform to seismic safety standards for hospital construction.

The most recent reports on the structural integrity and seismic safety of LHH were produced in 1992 by the Department of Public Works (The Seismic Assessment of Various City Owned Buildings Report). The main hospital building and Clarendon Hall were assigned a seismic hazard rating of "3". A "3" rating is defined as major damage/poor performance – during a major earthquake (Appendix 1). The definition of a "3" rated building also includes "structural and non-structural damages are anticipated which would pose appreciable life hazards to occupants". The building has to be vacated during repairs or possibly cannot be repaired due to the extent and/or economic considerations.

The seismic assessment of the Laguna Honda Hospital patient care buildings describe significant structural deficiencies with sheer walls, roofs and flooring systems, sanitary and elevator towers, partitions made of hollow clay tiles and lack of bracing for ceilings, light fixtures and fire suppression systems.

During the Loma Prieta earthquake, Clarendon Hall sustained major damage in the south wing which required retrofitting for continued safe operation. The main building sustained cracked plaster walls and ceilings, cracked flooring tiles and windows.

Maintenance issues at LHH

The LHH facility shows signs of suffering from decades of deferred maintenance and under funding of maintenance. Laguna Honda has 11 buildings on campus totaling

785,000 square feet. The annual maintenance and repair budget is \$500,000 which is insufficient for a large aging facility with a stockpile of deferred maintenance items.

The Capital Improvement Advisory Committee (CIAC) has provided funding for the highest priority capital improvement projects at Laguna Honda. They currently include a \$1.9 million project for partial replacement of the original roof of the main building and \$356,000 for phase II of the fire safety system replacement. Both of these projects are essential in maintaining the facility adequately to retain licensure.

For the next 5 to 10 years there is a need for an additional \$10 to \$15 million to fund maintenance and repair as well as capital improvement projects for the existing building (6 year capital plan attached as Appendix 2). The required work includes completion of roof replacement and fire safety systems, interior and exterior painting, flooring replacement or repair, upgrades or replacement of elevators, upgrade to mechanical and electrical systems, ADA compliance, and a number of other projects.

The Department of Public Health has also intentionally deferred all major capital improvement projects except those that are essential to the life safety, health and comfort of residents with the intention of advancing the general obligation bond to replace the facility. Unless the facility is replaced an increasing portion of the deferred maintenance items must be funded.

Patient Population at LHH

Most Laguna Honda residents require intensive nursing assistance for the simplest activities of daily living: eating, bathing, relieving themselves (i.e. using the toilet) and dressing. As such, Laguna Honda Hospital is a critical component of San Francisco's long-term care delivery system.

The current average age of a Laguna Honda resident is 72. The average length of stay for individuals residing in the Hospital for less than one year is 75 days; for those remaining in the facility over one year the average length of stay is 5 years. Three-fourths (\$91.5 million) of the Hospital's annual reimbursement comes from Medi-Cal and Medicare which funds institutional long-term care. The remaining reimbursement (\$20 million) comes from private insurance, State Realignment and City and County General Fund.

LHH is a "distinct part" SNF. To be a distinct part SNF, a facility must have either a few acute care beds or operate under the license of an acute care facility.

As a distinct part SNF, LHH receives a higher daily rate from Medicaid (\$234.00) than free-standing SNFs, which receive approximately \$86.00 a day. In exchange for this higher rate, distinct part SNFs are meant to admit "heavy care" patients. These are patients who not only meet the minimum SNF criteria but also have other needs which complicate their care (e.g., substance abuse, mental illness, severe cognitive impairment, behavioral problems, neurological impairment).

The state requires that distinct part SNFs attempt to discharge new patients to lower cost free-standing SNFs during the first 25 days of the patient's placement at Laguna Honda (the Hudman Regulations). Since 1990, after thousands of calls, only one patient has been successfully placed at a free-standing SNF. The reason is that free-standing SNFs do not have sufficient resources to care for complicated patients. In fact, patients are often transferred from these free-standing SNFs to LHH when their care needs become too great to be met at a free-standing facility.

LHH is licensed for a maximum census of 1214 Distinct Part Skilled beds (total census of 1457 including acute care beds). It contains one-third of all skilled nursing beds in San Francisco. The maximum census in fiscal year 1997-98 was 1193. Of Laguna Honda Hospital's operational beds, the vast majority (1027) are devoted to long-term skilled nursing beds. The remainder are distributed as follows: 104 skilled nursing facility beds for hospice/AIDS care and Alzheimer's and related diseases; 20 beds for acute general medicine; 15 for acute rehabilitation.

The census is being gradually lowered from 1192 to approximately 1065 as part of a negotiated settlement with HCFA in order to reduce the occupancy of the open wards, and to create space for separate dining and activity areas. This reduction in census has had a negative impact on institutional long-term care placement in San Francisco. To achieve this reduction in census LHH is currently accepting admissions only from San Francisco General Hospital of patients who have been refused by all other institutions. Since July 1998, we have not been able to admit frail elders who are failing at home or patients from other acute care institutions who need the services of LHH.

Even at its full census, there was a waiting list for entry of patients into LHH. Availability of SNF beds is tight at all institutions in San Francisco. The average occupancy rate of SNF beds in San Francisco is 94%.

Finance issues at LHH

Ninety-five percent of LHH's resident days have Medicaid as their source of reimbursement. Medicaid pays \$234 dollars a day for LHH. The City's cost for LHH is approximately \$280 dollars a day. Thus the Department patches the Medicaid rate by \$46 dollars a day per resident.

Projections of need for long term care in San Francisco

The need for long term care in San Francisco will unquestionably increase in the next three decades. The aging of the "baby boom" generation will markedly increase the numbers of persons over the age of 65, the population most likely to need long term care. According to the State Department of Finance, San Francisco's 65 and over population is expected to increase from 116,080 in 2000 to 129,787 in 2010, and to 181,981 in 2020—

an increase of 57%. Similarly, San Francisco's population of persons 75 and over will increase from 59,523 in 2000 to 66,483 in 2010, and to 75,346 in 2020--an increase of 26%. Our population of persons 85 and over will increase from 17,718 in 2000 to 23,958 in 2010 to 26,832 in 2020--an increase of 50%.

Not all older persons will need long term care. Conversely, some persons under the age of 65 require long term care because of disabilities. The precise number of persons that will require long-term care in San Francisco is difficult to predict. One indicator of demand is the number of persons with mobility or self-care limitations. The U.S. Census Bureau estimates 6% of persons 18 to 64 and 22.9% of persons 65 and over have mobility or self-care limitations. These percentages can be used to project the future mobility or self-care limitations that will be experienced by younger and older adults in the City (Table 1).

TABLE 1
PROJECTIONS OF MOBILITY OR SELF CARE LIMITATIONS IN
SAN FRANCISCO

YEAR	Persons 18 to 64	Persons 18 to 64 with mobility or self-care limitations	Persons 65 & Over	Persons 65 & Over with mobility or self-care limitations	TOTAL
2000	506,588	30,395 (6.0%)	116,080	26,582 (22.9%)	56,977
2010	494,877	29,693 (6.0%)	129,787	29,721 (22.9%)	59,414
2020	464,962	27,898 (6.0%)	181,981	41,673 (22.9%)	69,571

Source: U.S. Census Bureau

The Demand for Skilled Nursing Facility (SNF) Beds

SNF beds, such as those provided by LHH, are only one component of long-term care. They are best reserved only for those people who cannot be supported by less institutional care. Persons who can be sustained in their homes or in less intensive settings (e.g., assisted living, service enriched housing, or residential care facilities) should be supported in those settings. Nonetheless, there is a group of individuals who can only be cared for humanely in an institutional setting such as LHH.

DPH recently assessed residents at LHH for the possibility that a sizable proportion could be discharged to a less institutional setting. Assessment teams included experts in community placements. The teams found that there are only approximately 100 residents at LHH who would be appropriate for a less institutional placement. Even for these 100 persons, many of the alternative community placements are not currently available (e.g., psychiatric board and care). It should be noted that the best time to arrange a community placement is prior to placement in a facility like LHH. Once patients are in an institution and have lost their home and/or their ability to cope in a less restrictive environment, community placement becomes significantly more difficult. Nonetheless, this assessment

indicates that the vast majority of residents at LHH need the level of care provided at a skilled nursing facility.

Currently, there are 3,625 SNF beds in San Francisco. Our SNF bed rate in 1995 (the most recent year for which we have calculated this index) was 33 Nursing Facility beds per 1,000 persons over age 65. If we were to continue to use SNF beds at the same rate and maintain LHH at its existing 1200 beds, Table 2, shows, that we will experience an acute and growing shortage of SNF beds in the coming years.

TABLE 2
PROJECTED SUPPLY AND DEMAND FOR SNF BEDS

YEAR	2000	2010	2020
Rate per 1000 persons 65 & older	33 SNF beds per 1000	33 SNF beds per 1000	33 SNF beds per 1000
Projected Demand For SNF Beds	3,831	4,282	6,005
Projected Supply	3,625	3,625	3,625
Shortage of Beds	- 271	- 657	- 2,380

However, it should be the goal of the Public Health Department to reduce our reliance on SNF beds. The State of Oregon which has very progressive policies on community placements, has a SNF bed rate of only 27 SNF beds per 1,000 persons over the age of 65 years. (For comparison, the State of Washington has a SNF bed rate of 45 beds per 1,000 persons over the age of 65). However, even if we are successful in decreasing the proportion of persons with long-term care needs who require SNF beds, the absolute numbers of persons who will need SNF beds will increase due to the aging of the population. This is shown in Table 3. By the year 2020, we will have a shortage of SNF beds of 1,288, even if we have reduced our use of SNF beds to only 27 SNF beds per 1000 persons 65 and older.

TABLE 3
PROJECTED SUPPLY AND DEMAND FOR SNF BEDS
(Based on Oregon's experience)

YEAR	2000	2010	2020
Rate per 1000 persons 65 & older	33 SNF beds per 1000	30 SNF beds per 1000	27 SNF beds per 1000
Projected Demand For SNF Beds	3,831	3,894	4,913
Projected Supply	3,625	3,625	3,625
Shortage of Beds	- 271	- 269	-1,288

Thus, the health care needs for San Francisco dictate an increase in SNF beds in the near future.

Available options for LHH

Below are a list of possible options available for LHH. Some of the options can be pursued jointly (e.g., increase the use of community-based alternatives, rebuild LHH, pursue SB 1732 revenue).

1. Decrease the number of residents (the census) at LHH.

This is the option that is being pursued by HCFA. HCFA staff is not confident that San Francisco will succeed in passing a bond measure. Regardless, they are aware that a new building will take seven years to build and they do not wish to wait for a new facility for us to improve the quality of life of LHH residents.

Unless the City is able to demonstrate that it will be rebuilding LHH, it is likely that HCFA will attempt to force the City to further reduce the size of LHH. Their goal would be to restrict us to a census that would increase the distance between the patient beds on the open ward to satisfy their concern regarding privacy. Markedly decreasing the census at LHH would enable us to provide dining halls and activity areas on the wards.

HCFA has the ability to deny the Public Health Department reimbursement for patient care at LHH. It is very unlikely that HCFA would completely terminate LHH's provider agreement because of the political and ethical ramifications. Moreover, if HCFA were to terminate our provider agreement they state would have to find alternate beds for our residents. Since this would be impossible, it is very unlikely that they will pursue this remedy. On the other hand, HCFA has threatened to cut-off payment for any new admissions. This is a credible threat. If they pursued this, they wouldn't be obligated to identify alternative beds for residents. They would be able to argue that they had not evicted anyone from Laguna.

Pros:

- 1) A decrease in census may satisfy HCFA & DOJ on this issue.
- 2) Would not require a general obligation bond for LHH.

Cons:

- 1) Would cause a severe shortage of SNF beds in San Francisco. Would likely result in acute care hospitals being unable to discharge patients who should be transferred to a more appropriate subacute setting. Would result in patients failing at home with no alternative placements available.
- 2) Although a substantial decrease in the LHH census would likely satisfy HCFA and DOJ on this issue, the LHH buildings cannot stand forever. We run the risk of spending large amounts of money to maintain facilities that have outlived their usefulness.

- 3) As we decrease the number of residents at LHH, the operating cost per resident will increase because of the fixed costs of running LHH.
- 4) Would result in a substantial reduction in revenue which could only be compensated through lay-offs or attrition of staff.

2. Refurbish existing LHH to conform with four bed wards with dining/activity areas.

A plan was considered in 1992 to perform an interior renovation of existing patient care wings. Essentially the open wards would be remodeled to 4 bed wards. Because this would be a less economical use of space, the census at LHH would need to be reduced to 720 beds. The cost was \$160 million dollars (when determined in 1992). However, our architects are doubtful that this option is still viable, given new retrofit standards. These standards call for verification of quality and type of steel framework, specific compression strength for concrete, and a variety of other code requirements.

Pros:

- 1) Would satisfy HCFA.
- 2) Would cost substantially less than a new building.

Cons:

- 1) Would cause a severe shortage of SNF beds in SF. Would likely result in acute care hospitals having to keep patients who should be transferred to a more appropriate subacute setting. Would result in patients failing at home with no alternative placements available.
- 2) LHH buildings cannot stand forever. We run the risk of spending a large sum for an interior renovation of facilities that have outlived their usefulness.
- 3) As we decrease the number of residents at LHH, the operating cost per resident increases because of the fixed costs of running LHH.
- 4) Would result in reduction in revenue of \$25-30 million which could only be compensated through lay-offs or attrition of staff.
- 5) Unclear if this option is still viable given new retrofit standards.

3. Utilize existing beds at acute care institutions.

Although there is insufficient acute care bed capacity in San Francisco to completely solve the need for SNF beds in San Francisco, this may be a viable option for a portion of our needs.

A 1997 study by The San Francisco Nursing Facility Bed Study, commissioned by the San Francisco Section of the West Bay Hospital Conference, estimated a total of 271 acute care beds available for potential conversion to SNF as of June 1996. These beds are listed below in Table 4.

TABLE 4
TOTAL ESTIMATED ACUTE BEDS AVAILABLE FOR CONVERSION TO SNF BEDS
JUNE, 1996

Hospital Name

Chinese Hospital	None
California Pacific Medical Center	None
Kaiser Medical Center	None
Davies Medical Center	80 Beds
San Francisco General Hospital	None
Saint Francis Memorial Hospital	40 Beds
St. Luke's Hospital	40 Beds
St. Mary's Medical Center	32 Beds
UCSF Medical Center/Mount Zion	21 Beds
VA Medical Center	None
Pacific Coast Hospital	18 Beds
Seton Medical Center	36 Beds
TOTALS:	271 Beds

Although we have not formally resurveyed the hospitals, there is reason to believe that there are fewer beds available now than at the time this survey was conducted. Hospitals are running closer to capacity in 1998 than they were in June of 1996. Many hospitals have used existing space for research or physician offices. The largest congregation of beds for conversion was at Davies, which was recently purchased by CPMC. CPMC purchased Davies specifically because it needed more space for its operations.

There are two potential models for using existing acute care beds. The facilities could administer the beds themselves (i.e., hire labor, develop programs) or the Public Health Department could lease the space and staff the beds with city employees, purchasing only "hotel" services (dietary, housekeeping, laundry, supplies).

In terms of the facilities administering the beds themselves, any of these acute care facilities who wished to open SNF beds could have chosen to do so. They would have been able to bill Medicaid at the same distinct part SNF rate of \$234 that the City receives. These facilities have not pursued using their empty beds in this way because they cannot meet their expenses at this rate. Acute care hospitals typically bill private insurers between \$1200-\$1500 a day for their acute care beds (Medicaid rates are lower), so a rate of \$234 is unattractive.

If the City were willing to provide a patch to the Medicaid rate it is likely that other hospitals would become interested in delivering this service, depending on how large the patch is. However, it is unlikely that the existing patch (approximately \$46.00) that the City pays to make up the difference between Medicaid reimbursement and the cost of doing business at LHH would be sufficient.

We have approached several San Francisco hospitals about the possibility of utilizing empty beds at their facility. One San Francisco hospital estimated that its cost of administering SNF beds is approximately \$295.00 dollars a day. Thus they would require a Medicaid patch of \$61 dollars, rather than the current \$46 dollar patch we are using for LHH.

Providing a patch for non-profit hospitals may violate existing City MOU agreements with some of its unions, which have clauses prohibiting contracting out with existing general fund dollars.

Of the \$295 cost per day estimated by this hospital, approximately \$100 dollars represents their cost of "hotel" services. If the hospital were willing to allow us to rent wards within their facility, we could maintain our existing work force (hospital within a hospital model). However, we would incur additional expense. Because of the economies of scale at LHH, we would save very little per person at LHH for each resident relocated to St. Lukes or another facility. While the exact amount that would be saved is difficult to calculate we know it would be markedly less than \$100 per day. Thus, we would need additional revenue to pursue this option. Purchasing only the "hotel" services would likely not violate any City MOU agreements with labor unions.

Assuming that we can identify a group of beds for conversion at acute care hospitals and cover the additional operating costs, we still face the challenge of covering construction costs. The standards for acute care beds are different from the standards for SNF beds. Thus, there are construction costs in converting from acute care to SNF beds. For example, acute care wards generally do not have dining areas on ward, a requirement for SNF beds. When San Francisco General Hospital converted one ward from acute care to SNF, the cost was \$400,000 for converting 30 beds.

Pros:

- 1) Purchasing hotel services (hospital in a hospital model) may be a viable option for obtaining a portion of the needed SNF beds.

Cons:

- 1) Construction costs may be prohibitive. Also, unless the facility can guarantee the City a long lease, it would be unwise to invest City funds in construction of non-city owned facilities.
- 2) Operating costs would be significantly higher because of the loss of economies of scale of running 1200 beds at LHH.
- 3) Would still require rebuilding of LHH, albeit at a smaller size.
- 4) Patching Medicaid rates to use a contractual staffing model may violate existing City MOU agreements with some of its Unions.

4. Build several smaller facilities throughout the City.

There is no question that the trend for long term care is away from single site institutions. Thus, it would be sensible to consider building multiple facilities (for example, building

six two hundred bed institutions throughout the county. This option could allow for residents to be cared for in a setting closer to their own community.

While these are strong programmatic reasons for building several smaller facilities, this option is markedly more expensive. The 1994 Bond report projected the cost of building 12 ninety-nine bed institutions (with location of one facility on the existing site of LHH and including land purchase for the other facilities) was \$653 million dollars in 1994 dollars (compared to \$482 million in 1994 dollars for building a single 1200 bed facility).

The City would also face difficulties in identifying available land for construction. The operating costs of running several smaller facilities would be greater. Finally, it is unclear whether the State would be willing to grant us the higher distinct part SNF rate for 6-12 facilities, each of which may have to maintain some acute beds to qualify for the distinct part SNF rate.

Pros:

- 1) Several community-sited facilities is a better programmatic model.
- 2) There would probably be greater support for this option in the community than building a single site facility.

Cons:

- 1) Markedly higher constructions cost than building one single site. City may also face obstacles identifying land for the facilities.
- 2) Higher operating costs.
- 3) May not be able to qualify each of the facilities for distinct part SNF rates, thus reducing revenue.

5. Sell the land of LHH and locate the facility elsewhere in the City where property values are lower.

LHH sits on a 62 acre parcel in a very desirable residential area of Forest Hills. This raises the question of whether the land could be sold and the revenue used to locate LHH in another area in San Francisco where property values are lower.

In considering the value of LHH land, it is important to note that 50% of the site is zoned as a "greenbelt" and therefore cannot be developed without a zoning variance. Applications for variances to greenbelts have experienced strong opposition from environmental groups and surrounding neighbors.

Assuming that no zoning variance is requested or granted, City Planning staff projected that approximately 400 to 500 units could be built on 50% of the LHH parcel. City Planning estimated that the value of the land assuming no variance was \$20-\$30 million in 1994 dollars.

Although there are areas of the City where property values are lower, this option would result in significant delays in rebuilding LHH. A new site would need to be identified, we

would need to obtain planning approval, develop environmental impact reports, conduct hazardous material abatement, etc. The delay is problematic for two reasons. It would be harder to hold State and Federal regulators at bay, if we are adding two years to the timing of a new building. Also, the construction costs for a new LHH are very sensitive to cost escalations (i.e. inflation) due to delays in building the project. One idea which has been advanced by the architect, Derek Parker, is to relocate the new facilities on top of City owned parking garages. This would save the dollars incurred by having to purchase new land. It is unknown, however, if the existing structures are seismically strong enough to build on and still meet the SNF standards.

Pros:

- 1) Selling the land and acquiring a new site for LHH in a neighborhood with lower property values could potentially provide a revenue source for the project. If we prevailed on City Planning to remove the greenbelt determination, the value of the LHH land would be even higher.

Cons:

- 1) Identifying a new site and obtaining the necessary approvals to rebuild LHH could result in significant delays to the project
- 2) There would likely be significant neighborhood opposition to selling the LHH land and allowing 400 to 500 units to be developed on the site. Neighborhood opposition would undoubtedly increase if we propose removing the greenbelt designation and building a larger number of units.

6. Sell or rent a portion of the land of LHH to obtain additional revenue.

One option, closely related to option 5, is to rebuild LHH at its current site but sell or rent the remaining land. However, with the greenbelt designation, very little land would be available for sale or rent if we rebuilt LHH at the site. The acreage which currently houses Clarendon Hall would be available and could be sold. Potentially, the land of Clarendon Hall could be sold or rented for the sake of providing market rate senior housing or assisted living. This could provide a potential revenue source of LHH. However, at best the available land at LHH could only generate a small portion of the total cost of rebuilding LHH. As discussed in option 5, if we were to pursue revoking the greenbelt designation of LHH, this would increase available land, but at the cost of generating significant neighborhood and environmental opposition.

Pros:

- 1) Source of revenue to offset cost of rebuilding LHH.

Cons:

- 1) Any large sale or rent of LHH land would likely yield strong neighborhood and environmental opposition.
- 2) Small amount of land would be available for sale and level of revenue from selling land would be marginal unless greenbelt designation is removed.

7. Increase use of community-based long-term care options.

Many persons who need long-term care can be maintained in their homes or in a less institutional setting than LHH. Alternatives to institutionalization include home care, assisted living, board and care, psychiatric board and care, adult day health care, full-continuum program of all-inclusive care for the elderly (PACE model, such as On Lok). Persons who can stay in the community generally prefer to do so. This is especially true of younger disabled persons. Our ability to provide sufficient supports for persons to stay in their homes or community settings depends on available resources as well as creativity in using these resources.

One limitation to community placements has traditionally been the lack of sufficient State and Federal reimbursements for this type of service. For example, Medicaid will pay LHH for a person with skilled nursing needs, but will usually deny paying for a sufficient number of home care hours to allow the person to stay at home. A second problem has been the reluctance of Medicaid to pay for housing, even though loss of housing or lack of handicapped accessible housing often leads to institutionalization (e.g., an elder living at home has a stroke, lives in a third floor walkup without an elevator and, therefore, requires admission to LHH).

It has been suggested by community-based providers that there might be a substantial number of LHH residents who could be cared for at a less institutional facility than LHH. To answer this question, the Department comprehensively evaluated over 700 of the highest functioning residents of LHH. The evaluation team included community-based service providers, so as to broadly consider alternative options for LHH residents. Less than 100 residents were considered candidates for discharge. Among these, the largest group (35) were further assessed to be at the appropriate level of care. Other residents (25) were felt to be candidates for a PACE model. However, none of the residents for whom this was an option wished this placement. Another group of residents (35) were felt to be candidates for medical or psychiatric board and care facilities, which are in extremely short supply. At the conclusion of this process, of all of the patients evaluated, only five were discharged. One important limitation of this evaluation was that the best time for community placement is prior to individuals spending substantial time in a long-term care institution. Once residents have lost their home, community ties and survival skills for living independently, alternative placement is substantially more difficult. Residents at LHH are now and will continue to be assessed for their appropriate level of care prior to and after admission.

To address the need for more community-based long-term care options, San Francisco has been actively planning a Long-term Care Integration Pilot Project as envisioned by AB 1040, signed into law in 1995. The Pilot Project is intended to provide counties with greater flexibility in the design and financing of long-term care services so as to facilitate a greater emphasis on in-home and community-based program models. AB 1040 is based on the assumption that there is a portion of the population currently utilizing institutional long-term care services (such as skilled nursing facilities) that could be cared for in less intensive, non-institutional settings. For some percentage of this population, restrictions

associated with Medi-Cal reimbursement requirements have been identified as obstacles in providing care in these alternative settings. Through AB 1040, San Francisco is seeking waivers so that it may be reimbursed for providing care to some Medi-Cal recipients in non-institutional settings. The Public Health Department is the lead agency for 1040 planning. The members of the Long-Term Care Pilot Project Task Force were appointed by the Board of Supervisors and the Mayor.

San Francisco's long-term care integration plan will improve access to home and community-based long-term care services while simultaneously maintaining access to skilled nursing facilities. Under the plan, persons who need long-term care services will select from a network of providers to receive services. The provider network will be responsible for making sure that clients receive case management, long-term care and acute care services. Under the dictates of AB 1040, San Francisco will designate (or create) a long-term care agency to oversee this new long-term care delivery system. In addition to proposing a new service delivery model, the long-term care integration plan also defines the continuum of home, community and institutional services needed for this population. The success of this plan is dependent upon the availability of supportive housing to keep long-term care consumers in their communities for as long as appropriate. As envisioned, San Francisco will create a capitated managed care system for long-term care services. The Task Force believes that the proposed model will resolve long-standing deficiencies and overlaps in the current long-term care system. The Task Force anticipates that it will take six (6) years to implement this plan.

While the AB 1040 planning shows great promise of creating alternatives to institutionalization, it is clear that there will always be a need for SNF beds. The question is how far can we reduce the need for institutional placements.

In 1995, our use of SNF beds was 33 beds per 1000 persons over the age of 65. If we rebuild Laguna Honda to its current size (1,200 beds) and maintain the same number of total SNF beds in San Francisco (3,625) our use of SNF beds in San Francisco will markedly decrease as the population ages as shown in Table 5.

TABLE 5
NUMBER OF SNF BEDS IN SAN FRANCISCO
BASED ON LHH BED CAPACITY

YEAR	PERSONS 65 OR OVER	NO. OF SNF BEDS PER 1000 PERSONS ASSUMING A 1200 BED LHH (3,625 SNF BEDS CITYWIDE)	NO. OF SNF BEDS PER 1000 PERSONS ASSUMING AN 800 BED LHH (3,625 SNF BEDS CITYWIDE)
1995	109,848	33	29
2000	116,080	32	28
2010	129,787	28	25
2020	181,981	20	18

Column 4 shows what our use of SNF beds would be if we lowered our SNF beds at LHH to only 800 beds (for a total of 3,225 beds in San Francisco). It seems unlikely that San Francisco can decrease our SNF bed use from 33 beds per 1000 to only 18 beds per 1000 in the next 20 year period.

Although the data convincingly show the need for SNF beds in the future, it is certainly true that funding for long-term care is scarce. While San Francisco currently has almost enough SNF beds, we are woefully under capacity for community alternatives. Thus, one could consider reprioritizing our resources such that in the future we would be under capacity for SNF beds and have sufficient capacity for community placements. One advantage of this strategy is that since community placements may be cheaper, a reprioritization may result in serving more people.

In the AB 1040 process, one of the major concerns has been that rebuilding all 1200 beds at LHH will deplete all of the City's resources for long-term care. The concern is fueled by the fact that Medicaid rates for SNF's have been frozen for many years. Since the City's costs increase every year, the lack of increase of reimbursement means that the City's contribution to LHH increases every year. Alternatively, if the City were to rebuild only 800 beds, community advocates hope the operating funds (both Medicaid and local funds) for running the additional 400 beds would be used for community placements.

On the other hand, the Public Health Department has traditionally prioritized those at greatest need when funding is scarce. The residents of LHH are the most vulnerable of the population needing long-term care (e.g., those with substance abuse, mental illness, or severe cognitive impairment). Failing to provide for them could lead to unnecessary emergency room visits, unnecessary acute hospital stays, unnecessarily prolonged hospital stays (because of an inability to discharge patients) and an increased number of severely impaired persons living on the streets, in shelters and single room occupancy hotels. When hospitals cannot discharge patients to SNFs, they are unable to admit new patients, resulting in a dangerous shortage of acute care beds. The City also receives markedly less reimbursement when a Medicaid patient who can be discharged is left in an acute hospital bed (@ \$234 a day) compared to the reimbursement for an acute patient (@ \$800 a day for Medicaid; higher for Medicare or private insurance).

In this regard it is important to note that whereas LHH is a more restrictive environment than home care or assisted living, it is a less restrictive environment than acute hospitals, which have no activities, no social dining, etc. Thus it is important to recognize the unique role of LHH in providing rehabilitative and convalescent services.

Pros:

- 1) Community-based alternatives are overwhelmingly preferred by persons who can thrive in non-institutional settings.
- 2) Community-based alternatives may be less expensive and thus a larger number of persons may be served for the same amount of money.

Cons:

- 1) Community-based alternatives are not as successful for the most vulnerably ill persons with long-term care needs.

8. Place residents who need long-term care out of county.

Because of the high property values in San Francisco, it is less profitable to build SNF beds within the City than outside the City. However, the number of SNF beds available even outside our county is small.

Medical Social Services at San Francisco General Hospital does a daily computerized search for SNF beds in the 9 bay area counties (Alameda, Contra Costa, Santa Clara, San Mateo, Napa, Sonoma, San Francisco, Solano, Marin) through the PRN system. It searches 166 SNF facilities.

On 9/3/98, 110 SNFs had a total of 279 beds available. When queried on availability of MediCal beds the number was reduced to 49 facilities with 62 beds. When queried on availability of MediCal beds for patients with behavioral problems there were no beds available.

San Francisco General Hospital was trying to place 19 patients on 9/3/98. The system matches beds to patients' medical, psychiatric, behavioral and financial criteria. For these 19 patients, the system came up with the following:

- 7 patients did not match and could not be placed in any of the facilities.
- 12 patients could be evaluated for 11 available slots.

A follow-up of these 12 patients, one week later, revealed:

- 2 were admitted to LHH.
- 2 became medically unstable and are still at SFGH.
- 1 improved and was discharged home.
- 1 was discharged to an AIDS residence.
- 1 was discharged to a free-standing nursing home in San Francisco.
- 5 were awaiting beds to become available in a SNF or other facility.

Overall the City cannot depend on facilities in other counties to house many potential LHH residents.

Pros:

- 1) To the extent that beds are available, we can place San Francisco residents who need long-term care outside of county at no cost to the City.

Cons:

- 1) Few beds are available.

- 2) The goal of maintaining family involvement is hampered when long-term care residents are placed in SNF out-of-county placements.

9. City phases itself out of the institutional long-term care business.

Although San Francisco has a proud tradition of providing long-term care, not all counties provide institutional long-term care. Therefore, it is worth asking whether the county should continue running an institution like Laguna Honda Hospital (LHH).

In counties of California that do not have SNFs like LHH, patients needing institutional care are provided for at free standing SNFs or at acute hospital based distinct-part SNFs.

As discussed in Option 3, other acute hospitals in San Francisco could have developed distinct part SNFs and received the same level of reimbursement as the Department of Public Health does. However, hospitals have not pursued this option because Medicaid revenues do not adequately reimburse the costs of institutional care given the cost of doing business in San Francisco.

It is possible that if the City were willing to provide a patch to Medicaid rates other institutions would become interested. However, as was discussed in Option 3, there are few acute beds available for transition to SNF care. It is unlikely non-profit hospitals would be interested in building new facilities for the City unless the City would guarantee multi-year operating costs. Generally, the City does not guarantee operating costs beyond a single fiscal year. A private developer unassociated with a hospital would be unable to bill Medicaid at a distinct-part SNF level, and would therefore receive only about \$90 per resident day. A private developer would also likely want the City to make a long-term commitment to providing an operating subsidy.

It should also be noted that contracting out long-term care services would be a violation of some of our existing labor MOUs.

San Francisco's need for a SNF facility like LHH is also greater than that of other counties. San Francisco has on average an older population than that of other California counties. San Francisco also has a larger population affected by substance abuse, mental illness, and homelessness. When persons with these problems develop medical illness they cannot usually be handled by free-standing SNF and instead require a facility like LHH.

For these reasons, the Department does not recommend this option.

Pros:

- 1) Would take advantage of the ingenuity of private non-profit providers and private developers.

Cons:

- 1) Would require a City patch to Medicaid rates.

- 2) Unlikely that non-profit hospitals or private developers would be willing to invest in building new facilities unless the City guaranteed multi-year subsidies.
- 3) Would violate some of the City's MOU agreements with labor.

10. Build a new Laguna Honda Hospital at the current Forest Hills site.

Thus far, we have primarily explored two options for rebuilding LHH: a 1200 and an 800 bed replacement facility. These options are discussed individually.

10a. Build a 1200 bed replacement facility.

LHH is currently licensed at 1457 beds, including 1214 Distinct-part SNF beds. Our peak census in 1997-98 fiscal year was 1193. As of November 1, 1998 we are at a census of 1080, due to the moratorium we instituted as a compromise with HCFA. The current moratorium has created hardship for individuals who have not been able to enter LHH (e.g., seniors failing at home). The moratorium has also created problems for acute care hospitals who have had patients for whom they have had no site of discharge.

The projections for long term care in San Francisco discussed above indicate that San Francisco is likely to experience increased demand for SNF beds in the next twenty years. Even assuming we fully rebuild the 1200 beds at LHH we are still likely to experience a shortage in SNF beds.

The bond measure for LHH that was proposed for November 1998 was to cost a total of \$503 million. If this same plan were to go forward in a June 1999 ballot, the cost would be \$529 million because of cost escalation (i.e., inflation) and because there would be a delay due not being able to start excavation in winter (Appendix 3, Option A).

The Department of Public Health has worked with the Bureau of Architecture to decrease the total cost of the program. We have developed two recommendations to decrease the cost of rebuilding the 1200 bed facility from \$529 million to \$434 million: delay seismic upgrade of the administrative space and involve a private developer in demolishing Clarendon Hall and building elder housing or assisted living (Appendix 3, Option B).

We are not required by Federal or State regulations to seismically upgrade the administrative space of LHH. While ultimately this upgrade needs to be performed, we could delay the upgrade until the City pursues a bond measure for seismic upgrading of other City buildings. This would save \$38 million.

In the bond plan for November 1998 we envisioned the City renovating Clarendon Hall. However, it would likely be more cost effective to engage a private developer to demolish and rebuild or renovate the existing facility. This would save \$56 million.

At a total cost of \$434 million, the cost per bed is \$362K. However, to make comparisons with the construction costs at other facilities, the Bureau of Architecture has developed unit costs per square foot. This allows for "apples-to-apples" comparisons. As shown in

Appendix 4, the range of costs per square foot was \$250-\$276. The cost per square foot for the \$503 million LHH rebuild proposed for November 1998 was \$261.00. This clearly falls within the established range. We have not yet recalculated the costs per square footage for this less expensive 1200 bed facility, but we are certain it will fall within the same range.

As the last decade of planning for rebuilding LHH has shown, it is extremely difficult to plan and finance building a facility like LHH. We will likely have only one shot at rebuilding LHH. Whatever facility we choose will have to meet our needs for the next 60 years.

Operating costs must also be figured in to our decision on how large a LHH facility to build. In recent years the size of the gap between Medicaid reimbursement and our expenses, which is the cost to the City General Fund, has grown. The reason the gap has grown is that our expenses have increased both due to inflation and increased staffing requirements of HCFA, while Medicaid reimbursement rates have been flat for five years. This trend is likely to continue.

In this fiscal year LHH is projecting a new \$7 million revenue shortfall. The revenue is decreased because of the moratorium on new admissions. We cannot decrease our staff to compensate for the smaller number of patients because HCFA requires that we provide increased supervision of residents, increased social activities (necessitating hiring additional activity therapists) and social dining experiences for all our residents. Social dining is very labor intensive because it requires getting patients out of bed, transporting them to the dining areas several times a day and then back to their beds or activity areas. Whereas our expenses are increasing, prospects of an increase in reimbursements are not good. The State of California, as well as the Federal government are looking for ways to decrease Medicaid expenses.

Pros:

- 1) The projections show that San Francisco will need at least 1200 NF beds at LHH.
- 2) Because there are fixed capital costs in building a new LHH (e.g., power plant, excavation of site), the cost per bed for 1200 beds is less (\$362K) than if we build 800 beds (\$474K).

Cons:

- 1) The capital costs of building 1200 beds is high (434 million).
- 2) Maintenance of the 1200 beds at LHH would mean that there would be fewer operating dollars that could be used for community-based alternatives.
- 3) If current trends continue, LHH will need steadily increasing general fund to meet its expenses.

10b. Build an 800 bed replacement facility.

Although there is nothing magic about the number 800, we have used this figure in projecting the implications of building a smaller LHH. An 800 bed facility would cost \$379 million dollars (Appendix 3, Option C). The cost per bed (including all costs) would be \$473K.

Pros:

- 1) The capital costs of constructing an 800 bed facility are significantly lower than for a 1200 bed facility.
- 2) A decrease in the number of LHH beds would increase the amount of money that could be used for non-institutional community placements (e.g., assisted living which formerly were used for institutional care for alternative community programs
- 3) A decrease in the number of LHH beds would decrease the funding needed from the general fund.

Cons:

- 1) An 800 bed facility would not meet the City's needs for SNF beds over the next two decades.
- 2) The cost per bed is higher with an 800 bed facility because of the fixed costs of construction.

11. Pursue State and Federal financing to help rebuild LHH.

We believe it may be possible to obtain State or Federal funding to help rebuild LHH. For example, SB 1732 (Welfare and Institutions Code 14085.5) allows disproportionate share hospitals to finance all or a portion of their capital projects with federal disproportionate share funds (DSH). The funds are above and beyond DSH dollars that the hospital would receive for clinical care. The Department used SB 1732 to finance a portion of the garage for San Francisco General Hospital.

Several counties have used SB 1732 to fund hospital construction (i.e., Contra Costa, Alameda, San Joaquin, San Mateo, etc.) The legislation indicates that the projects coming under SB 1732 must have been approved by the State prior to June 30, 1994. Nonetheless, it is possible to petition the State Legislature to reopen SB 1732.

SB 1732 funding is only available to DSH hospitals. LHH is not a DSH hospital because of the small number of acute care days at LHH. SFGH is a DSH hospital. Therefore, we would need to apply on behalf of SFGH to build a new SNF that would operate under the license of SFGH. We would demonstrate the need for SFGH to build such a facility by explaining that LHH would be closing when construction is complete for the new facility.

The mechanism of reimbursement for DSH would be for the county to float a revenue bond to pay for the construction of the facility. SB 1732 then can be used to pay up to the percentage of the amortized rate (over the 30 year period of the bond) equal to the percentage of Medicaid clients in the institution. At the current time, over 60% of the clients of SFGH have Medicaid. In addition, we are working with the San Francisco

delegation to determine if a specific State appropriation can be made to assist in rebuilding LHH.

Also, Senator Feinstein and Congresswoman Pelosi were successful in adding language to 1999 omnibus appropriation agreement asking the Federal Department of Health and Human Services to assist San Francisco in finding funds to rebuild LHH>.

Pros:

- 1) Provides a potential additional revenue source for rebuilding LHH.

Cons:

- 1) SB 1732 has expired and State legislative action will be required to allow the City to use this option.
- 2) It may be difficult to obtain a specific appropriation for San Francisco.

12. Use Tobacco Settlement Funding to finance rebuilding LHH.

A settlement between the tobacco companies and the State Attorneys General will bring substantial funding to San Francisco. San Francisco was the first local government to sue the tobacco companies. Because of this, our City Attorney, Louise Renne successfully negotiated for the State of California to share the proceeds of the Brown settlement with local counties. One purpose of the suit was for State and local Health Departments to recoup the cost of health care provided to persons suffering ill health due to tobacco consumption. Recognizing this purpose and the tremendous need to rebuild LHH, City Attorney Renne recommended to Mayor Brown that the settlement be used towards rebuilding LHH. He has agreed to this proposal and with the support of the Board of Supervisors, the funding could be used for this purpose.

The funding itself has no restrictions. It will be a yearly payment to the City commencing in the year 2000. Because the amount of the yearly payment is keyed to tobacco sales as well as inflation, we do not know the exact amount of the payment. Currently the tobacco industry projects that tobacco sales will decline by 3%. However, the settlement also provides for increased payments annually by the CPI or 3%, whichever is greater. These assumptions would yield an approximate payment of \$20-22 million per year in 1999 dollars (appendix 5). However, if tobacco sales decline further due to the increased cost of cigarettes (the tobacco companies are increasing the price of cigarettes to pay for the settlement) the size of the award will shrink. We are currently attempting to estimate the correct asset value of the settlement.

PUBLIC HEALTH DEPARTMENT RECOMMENDATIONS:

1. Rebuild LHH on the existing Forest Hills site.
2. Delay seismic upgrade of administrative space until the next city-wide seismic upgrade bond – saving \$38 million from original LHH rebuild scenario.

3. Work collaboratively with City's Long Term Care Pilot Project Task Force to increase home and community-based long-term care services and decrease reliance on institutional placements.
4. Use Tobacco Settlement Funding to rebuild LHH.
5. Pursue Federal & State to help cover the rebuilding costs.
6. Begin to build a consensus on the right size for a new LHH, by arranging a series of input meetings with interested parties including elders and disabled persons, their advocates and service providers, union leaders, members of the business community, and civic leaders. Feedback will be brought to the Health Commission.

TABLE 1.4.2
City of San Francisco Seismic Hazard Ratings
(Source: San Francisco Department of Public Works)

The Seismic Hazard Rating (SHR) is a number assigned to a building as a means of estimating building performance during a great earthquake as well as the amount of damage the building will sustain. The ratings, and the policy implications, are described here:

SHR	Damage Estimate	Description
1	Minor damage (Good performance)	Some structural or non-structural damage and/or falling hazards may occur, but these would pose minimal life hazards to occupants. The damage can be repaired while the building is occupied and with minimum disruption to functions. Buildings and structures with this rating represent an acceptable level of earthquake safety, and funds need not be spent to improve their seismic resistance to gain greater life safety.
2	Moderate damage (Fair performance)	Structural and non-structural damage and/or falling hazards are anticipated which would pose low life hazards to occupants. The damage can be repaired while the building is occupied. Buildings and structures with this rating will be given a low priority for expenditures to improve seismic performance and/or falling hazards to the "good performance" level.
3	Major damage (Poor performance)	Structural and non-structural damages are anticipated which would pose appreciable life hazards to occupants. The building has to be vacated during repairs, or possibly cannot be repaired due to the extent (sic) and/or economic considerations. Buildings and structures with this rating will be given a high priority for expenditures to improve seismic performance and/or falling hazards to the "good performance" level, or would be considered for other abatement programs such as reduction of occupancy.
4	Partial/total collapse (Very poor performance)	Extensive structural and non-structural damage, potential structural collapse and/or falling hazards are anticipated which would pose high life hazards to occupants. There is a good likelihood that damage repairs would not be feasible. Buildings and structures with this rating will be given the highest priority for expenditures to improve seismic performance and/or falling hazards to the "good performance" level, or would be considered for other abatement programs such as reduction of occupancy or vacation.

APPENDIX 2

**COMMUNITY HEALTH NETWORK
LAGUNA HONDA HOSPITAL**

**FY 98-99 CAPITAL IMPROVEMENT REQUESTS
(Includes all 6 Year Capital Plan Projects)**

Project	*Estimated Costs	
	<u>Subtotal</u>	<u>Total</u>
1. Replace Roof on Main Hospital Bldgs		
Phase I – Patient Service Wings	\$ 1,901,325	
Phase I – Support Service Wings	1,279,129	
Project Total:		\$ 3,180,454
2. Replace Fire Safety System (HCFA Waiver)		
Phase I – Infrastructure	\$ 356,425	
Phase II – System Installation	1,049,452	
Phase III – System Installation	992,684	
Project Total:		\$ 2,398,561
3. Miscellaneous Facilities Maintenance		950,000
4. Interior Renovations in Patient wards (6) (DOJ Issue)		600,000
5. Upgrade Existing Telephone Switch		500,000
6. ADA Toilet for Adult Day Health Center		100,000
7. Resident Smoking Pavilions		275,000
8. Replace Kitchen Waste Lines		110,000
9. Patient Ward Interior Painting		190,000
10. Patient Ward Flooring Replacement		65,000
11. Main Building Elevator Repairs		522,500
12. Adult Day Care Renovation		125,000
13. Remodel & Equip Radiology Department		450,000
14. Exterior Repair & Painting of Main Building (Phase I) (Total for this project is \$3,715,000)		575,000
15. Misc. ADA Improvements to Main Building		100,000
16. Clarendon Hall Window Sash Repair & Painting		225,000
17. Clarendon Hall Ward Flooring		760,000
18. Patient Tubs/Shower Installation		125,000
19. Woodside Access Road Expansion		100,000
20. Exterior Preservation – Service Buildings		140,000
21. Resurfacing Campus Roadways		300,000
22. Patient Activity Center Remodeling		<u>400,000</u>
Total:		\$12,191,515

* To be verified/updated by DPW

APPENDIX 3

COST OF VARIOUS OPTIONS FOR REBUILDING LAGUNA HONDA HOSPITAL

OPTION A

**(As proposed for November, 1998 Bond Measure & updated to reflect delay in implementation)
1200 BEDS, CLARENDON HALL & ADMINISTRATION RETROFIT**

1. Demolish power plant and build new Central Plant/Laundry	\$ 37,204,859
2. New 1200 bed hospital & support services	347,346,568
3. Renovate 160 bed Clarendon Hall	56,164,000
4. Seismically upgrade office space in Former hospital	46,248,231
5. Abate & demolish former hospital wards site work	<u>37,058,050</u>
	\$ 524,021,708
Estimate public financing at 1%	<u>5,240,217</u>
	\$ 529,261,295

OPTION B

**1200 BEDS, NO RETROFIT OF CLARENDON HALL, UPGRADE ONLY ELECTRICAL
SYSTEMSAND COMPUTER HOOK-UPS OF ADMINISTRATION BUILDING**

1. Demolish power plant and build new Central Plant/Laundry	\$ 37,204,859
2. New 1200 bed hospital & support services	347,346,568
3. Upgrade of Administration area	7,882,875
4. Abate & demolish former hospital wards site work	<u>37,058,050</u>
	\$429,492,352
Estimate public financing at 1%	<u>4,294,924</u>
	\$ 433,787,276

OPTION C
800 BEDS, REST IS SAME AS OPTION B

1. Demolish power plant and build new Central Plant/Laundry	\$ 37,204,859
2. New 800 bed hospital & support services	293,356,732
3. Upgrade of Administration area	7,882,875
4. Abate & demolish former hospital wards site work	<u>37,058,050</u>
	\$ 375,502,516
Estimate public financing at 1%	<u>3,755,025</u>
	\$ 379,257,541

Each element includes associated soft cost and escalation to midpoint of construction (4.5% per year). Costs are broad estimates and included as an order of magnitude comparison with other options only.



Willie Lewis Brown, Jr., Mayor
Mark A. Primeau, AIA, Director and City Architect

APPENDIX 4



(415) 557-4700
FAX (415) 557-4701
<http://www.sfdpw.com>

Department of Public Works
Bureau of Architecture
30 Van Ness Avenue, Suite 4100
San Francisco, CA 94102-6020

Tara D. Lamont, AIA, Bureau Manager

July 29, 1998

Mr. Lawrence J. Funk
Executive Administrator
Laguna Honda Hospital
375 Laguna Honda Blvd
San Francisco, CA 94116

Subject: Laguna Honda Hospital Replacement Plan

Dear Mr. Funk:

Attached is a construction cost comparison of other Hospital facilities to your proposed 1,360 bed skilled nursing facility. These comparisons were derived in conjunction with our consultants Kaplan McLaughlin Diaz and Hanscomb Inc. Not included in any of the unit costs are site and owner specific costs, which vary greatly from hospital to hospital. These include:

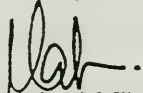
- Site work (includes demolition of existing buildings and associated asbestos abatement, preparation of site, roads, new or altered site utilities)
- Furniture and moveable equipment (includes telephones, computers, televisions, carts, hospital beds)
- Equipment typically supplied by the Owner (such as telephone and data wiring and switches, vendor supplied equipment such as laundry & waste management, medical equipment, some food service equipment)
- Owner's special programs (such as Art Enrichment)
- Owner's costs (such as operations, management, legal services, financial services & costs, insurances, permits, fees)
- Non-construction costs (such as design & engineering services, special inspections, testing, owner furnished data, construction management)

Although there is no functionally similar facility, we are able to compare with large, recently constructed acute care institutions. We have adjusted the construction costs for year completed (revised to today's dollar value), location built, and degree of difficulty as compared to your SNF (acute care vs. SNF, small facility vs. large institution, public sector vs. private sector, whether the facility was oversized for future expansion, etc.). We are comparing construction costs on a square foot basis which more closely approximates an apples-to-apples comparison than a per bed cost.

The program cost of \$502.5 million represents the most cost effective, practical solution for this type of institution on this site. Included in the complete program cost are items we as a City cannot avoid, such as historic preservation of the original Historically Significant hospital, demolition of existing buildings to clear the site, hazardous materials removal, upgrading site utilities, the Art Enrichment program, and interim relocations. We continue to look for further cost efficiencies. For instance, if it proves to be more practical to create 160 beds in the new facility than at Clarendon, we will recommend this option. The beauty of our plan is that it allows for this flexibility.

In summary, we believe our work since 1990 has revealed a Master Plan that creates construction sites for many different health care modalities, retains the character of the original Laguna Honda Home, and allows room for expansion in the future. Our goal is to maintain this flexibility throughout your current program to replace Laguna Honda Hospital.

Sincerely,



Marilyn M. Thompson
Senior Architect

cc: Anthony G. Wagner, Executive Administrator, CHN
Tara Lamont, Bureau Manager, BOA
Mike Stinetorf, KMD

LAGUNA HONDA HOSPITAL - REPLACEMENT PROJECT
CONSTRUCTION COST - HOSPITAL COMPARISON

KMD / GHC&P
 29-Jul-98

COMPARABLE HOSPITAL	BID COST BLDG. AREA UNIT COST	TIME ADJUSTMENT	LOCATION ADJUSTMENT	DEGREE OF DIFFICULTY	TOTAL ADJUSTED CONSTRUCTION COST WITH CONTINGENCY
HOSPITAL #1 URBAN CO. HOSP. 464 BEDS FULL SERVICE ACUTE	\$318,000,000 1,292,000 \$246	0.93 \$229	1.25 \$286	0.92 \$263	1.05 \$276
HOSPITAL #2 CA. HMO HOSPITAL 331 BEDS FULL SERVICE ACUTE CENTRAL PLANT	\$102,210,000 557,000 \$184	1.20 \$220	1.15 \$253	0.95 \$241	1.05 \$253
HOSPITAL #3 BAY AREA HMO HOSPITAL 100 BEDS ANCILLARY SERVICES CENTRAL PLANT	\$61,640,000 259,000 \$238	1.00 \$238	1.00 \$238	1.00 \$238	1.05 \$250
HOSPITAL #4 BAY AREA CO. HOSPITAL 153 BEDS ANCILLARY SERVICES CENTRAL PLANT	\$88,760,000 317,000 \$280	1.07 \$300	1.00 \$300	0.92 \$276	1.00 \$276
HOSPITAL #5 GOVERNMENT HOSP. 198 BEDS FULL SERVICE ACUTE CENTRAL PLANT	\$117,400,000 639,000 \$184	1.20 \$220	1.00 \$220	1.08 \$238	1.05 \$250

LAGUNA HONDA HOSPITAL - REPLACEMENT PROJECT

CONSTRUCTION COST SCENARIO

(Costs subject to modification as program is refined)

29-Jul-98

PROJECT	SQ. FT.	COST/SQ. FT.	CONSTRUCTION COST	TOTAL CONSTRUCTION COST
1. New Central Plant				
NEW CENTRAL PLANT	25,000	\$640	\$16,000,000	
ASBESTOS ABATEMENT			\$0	
DEMOLISH (E) PLANT & MISC. STRUCT.			\$0	
	25,000			\$16,000,000
2. New SNF Hospital - 1200 Beds				
NEW CONSTRUCTION				
Patient Care Areas	621,875	\$265	\$164,796,875	
Patient Support	100,492	\$255	\$25,625,460	
Administrative Areas	48,332	\$205	\$9,908,060	
Tele. / Data System			\$0	
ART ENRICHMENT (2%)			\$0	
SITE DEVELOPMENT			\$0	
	770,699			\$200,330,395
3. Renovate Clarendon Hall - 160 Beds				
ASBESTOS ABATEMENT			\$2,200,000	
SEISMIC RETROFIT	113,000	\$60	\$6,780,000	
REMODEL	113,000	\$170	\$19,210,000	
TELE. / DATA SYSTEM			\$0	
	113,000			\$28,190,000
4. Renovate Former Hospital Building for Support / Administration				
REMODEL CONSTRUCTION				
Asbestos Abatement			\$0	
Seismic / Historical Retrofit	0	\$60	\$0	
Remodel (asb/seis/hist/remodel)	101,191	\$185	\$18,720,335	
Tele. / Data System			\$0	
SITE DEVELOPMENT			\$0	
DEMOLISH OLD WINGS			\$0	
	101,191			\$18,720,335

Project Area Total 1,009,890

Construction Cost Total

\$263,240,730

Costb3

Project Unit Cost

444 < \$261 >

California Local Government Allocation of Potential Recovery
(in 000's)

County	1990 Census Pop	% Pop	City Share	Total Share	Total Payout All counties all years	1988	2000	2001	2002	2003	2004-2007 per year	2008-2017 per year	2018-2025 per year
Alameda	1,278,182	0.042883	0.03885	0.03885	483,698	5,925	15,830	17,094	20,524	20,718	17,282	17,835	19,761
Alpine	1,113	0.000037	0.000034	0.000034	421	5	14	15	16	16	15	15	17
Amador	30,038	0.001009	0.00096	0.00096	11,359	139	372	401	482	487	406	414	484
Butte	182,120	0.006120	0.00558	0.00558	69,885	844	2,254	2,434	2,922	2,950	2,462	2,511	2,813
Calaveras	31,998	0.001075	0.000958	0.000958	12,098	148	395	428	513	518	433	441	494
Colusa	16,276	0.000547	0.000482	0.000482	6,164	75	201	217	281	284	220	224	251
Contra Costa	865,732	0.027007	0.024305	0.024305	303,818	3,723	9,948	10,740	12,898	13,018	10,865	11,080	12,416
Del Norte	23,460	0.000784	0.000769	0.000769	8,871	109	290	313	376	380	317	322	382
El Dorado	125,995	0.004234	0.003810	0.003810	47,642	584	1,558	1,684	2,022	2,041	1,703	1,737	1,946
Fresno	657,999	0.022428	0.020185	0.020185	282,396	3,092	8,260	8,970	10,710	10,811	9,023	9,202	10,311
Glen	24,798	0.000833	0.000750	0.000750	9,377	115	307	331	398	402	335	342	383
Humboldt	119,118	0.004003	0.003602	0.003602	45,042	562	1,474	1,592	1,911	1,929	1,610	1,642	1,840
Imperial	109,203	0.003673	0.003308	0.003308	41,331	506	1,353	1,461	1,754	1,770	1,478	1,507	1,688
Inyo	18,281	0.000614	0.000553	0.000553	6,813	85	228	244	293	290	247	252	282
Kern	543,477	0.018262	0.016436	0.016436	205,006	2,517	6,725	7,262	8,720	8,803	7,347	7,492	8,366
Kings	101,659	0.003410	0.003069	0.003069	38,388	470	1,258	1,365	1,628	1,643	1,372	1,399	1,597
Lake	50,631	0.001701	0.001531	0.001531	19,146	235	627	677	812	820	684	698	782
Lassen	27,688	0.000927	0.000835	0.000835	10,438	128	342	369	443	447	373	380	428
Los Angeles Only	8,363,184	0.287821	0.260639	0.260639	3,251,422	41,055	109,581	110,437	142,209	143,554	119,812	122,189	135,918
City of L.A.			0.025000	0.025000	312,897	3,879	10,230	11,047	13,284	13,389	11,175	11,397	12,770
Madera	58,090	0.002064	0.001864	0.001864	23,209	408	1,090	1,177	1,413	1,427	1,191	1,214	1,381
Marin	230,096	0.007732	0.006959	0.006959	87,008	1,096	2,847	3,075	3,892	3,727	3,110	3,172	3,555
Mariposa	14,302	0.000481	0.000433	0.000433	6,408	65	177	191	229	232	183	187	221
Mendocino	80,245	0.002709	0.002420	0.002420	30,391	372	884	1,074	1,289	1,301	1,088	1,108	1,241
Merced	178,403	0.005895	0.005385	0.005385	67,459	828	2,208	2,384	2,882	2,890	2,412	2,458	2,796
Modoc	9,878	0.000325	0.000283	0.000283	3,580	45	120	129	153	157	131	133	150
Monterey	9,956	0.000335	0.000301	0.000301	3,745	46	123	133	160	161	135	137	154
Napa	355,690	0.011951	0.010758	0.010758	184,488	1,647	4,401	4,753	5,707	5,761	4,808	4,903	5,494
Nevada	110,765	0.003722	0.003390	0.003390	41,893	513	1,371	1,480	1,777	1,794	1,497	1,527	1,711
Orange	78,510	0.002636	0.002374	0.002374	29,887	364	972	1,049	1,260	1,272	1,061	1,082	1,213
Pacific	2,410,556	0.081000	0.072600	0.072600	911,802	11,166	28,590	32,212	36,877	39,043	32,686	33,282	37,238
Pierce	172,798	0.005306	0.004828	0.004828	65,239	800	2,136	2,272	2,789	2,799	2,336	2,382	2,669
Plumas	19,738	0.000663	0.000587	0.000587	7,484	91	244	264	317	320	267	272	305
Riverside	1,170,414	0.039328	0.035398	0.035398	442,688	5,421	14,484	15,640	18,779	18,957	15,822	16,138	18,080
Sacramento	1,041,219	0.034887	0.031488	0.031488	393,718	4,823	12,885	13,914	16,708	16,864	14,075	14,364	16,085
San Benito	35,687	0.001233	0.001110	0.001110	13,878	170	454	490	589	594	496	508	587
San Bernardino	1,418,380	0.047661	0.042895	0.042895	599,331	6,370	17,502	18,954	22,758	22,973	19,174	19,584	21,911
San Diego Only	2,498,016	0.083938	0.075545	0.075545	944,073	11,571	30,913	33,381	40,080	40,460	33,768	34,368	38,689
City of S.D.			0.025000	0.025000	312,897	3,829	10,230	11,047	13,284	13,389	11,175	11,397	12,770
San Joaquin	723,959	0.024327	0.021894	0.021894	288,237	7,183	19,189	20,721	24,890	25,116	20,861	21,137	23,954
San Luis Obispo	217,162	0.007297	0.006587	0.006587	92,116	1,008	2,687	2,902	3,484	3,517	2,916	2,984	3,366
San Mateo	543,823	0.021629	0.019846	0.019846	246,462	3,008	8,093	8,861	10,423	10,522	8,782	8,956	10,035
Santa Barbara	369,609	0.012420	0.011178	0.011178	195,776	1,712	4,574	4,908	5,930	5,989	4,996	5,085	5,710
Santa Clara	1,497,577	0.060322	0.045280	0.045280	588,278	6,937	18,532	20,012	24,028	24,256	20,244	20,648	23,135
City of San Jose			0.025000	0.025000	312,897	3,829	10,230	11,047	13,284	13,389	11,175	11,397	12,770
Santa Cruz	228,734	0.007720	0.006948	0.006948	89,859	1,084	2,820	3,070	3,886	3,721	3,106	3,167	3,549
Shasta	147,035	0.004941	0.004447	0.004447	56,659	691	1,843	1,985	2,359	2,342	1,988	2,027	2,271
Sierra	3,318	0.000111	0.000100	0.000100	1,285	15	41	44	53	54	45	46	51
Stanislaus	43,531	0.001453	0.001316	0.001316	18,480	202	539	582	698	705	589	600	672
Stockton	340,421	0.011439	0.010285	0.010285	128,722	1,577	4,213	4,548	5,462	5,514	4,602	4,693	5,259
Sonoma	386,722	0.013045	0.011741	0.011741	146,788	1,796	4,804	5,188	6,228	6,228	5,248	5,362	5,997

California Local Government Allocation of Potential Recovery (in 000's)

COUNTY	1990 Census Pop	% Pop	Only Share	City Share	Total Share	Total Payout All counties all years	1998	2000	2001	2002	2003	2004-2007 per year	2008-2017 per year	2018-2025 per year
Stanislaus	370,522	0.012450	0.011205		0.011205	140,105	1,716	4,565	4,951	5,945	6,001	5,009	5,108	5,724
Sutter	64,416	0.002164	0.001948		0.001948	24,367	298	787	881	1,034	1,043	871	868	895
Tehama	49,625	0.001688	0.001501		0.001501	18,785	230	614	683	798	804	871	864	787
Trinity	13,063	0.000439	0.000395		0.000395	4,940	61	162	175	210	212	177	180	202
Tulare	311,921	0.010481	0.009433		0.009433	117,848	1,445	3,860	4,168	5,005	5,062	4,217	4,300	4,819
Tuolumne	48,458	0.001628	0.001465		0.001465	18,323	224	600	648	777	785	655	668	749
Ventura	689,018	0.022480	0.020232		0.020232	262,975	3,099	8,279	8,940	10,734	10,836	9,044	9,273	10,335
Yolo	141,092	0.004741	0.004267		0.004267	53,261	654	1,746	1,845	2,284	2,265	1,907	1,945	2,180
Yuba	68,228	0.001857	0.001761		0.001761	22,018	270	721	778	934	943	787	803	900
Totals	29,760,021	1.000	0.900	0.100	1.000	12,503,486	163,167	409,196	441,866	530,562	636,573	446,993	456,864	510,813

APPENDIX B

1990

*REPORT ON THE PLACEMENT OF
LAGUNA HONDA HOSPITAL*

Presented to
San Francisco Board of Supervisors

Submitted by the
San Francisco Department of Public Health
May 5, 1999

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I. INTRODUCTION

Laguna Honda Hospital and Rehabilitation Center is a unique long-term care facility. Laguna Honda provides skilled nursing care, hospice, rehabilitation, acute medical, senior nutrition and adult day health services. It is one of the largest of its kind in the United States -- traditionally providing care to 1200 and currently serving 1,065 residents. It cares for frail elderly and younger residents with nerve diseases, such as multiple sclerosis, head injured patients and those suffering from AIDS. Depending on their specific needs, Laguna Honda residents may stay for a few months or many years. The campus has two buildings -- a main hospital and Clarendon Hall. Laguna Honda is owned and operated by the City and County.

Laguna Honda is part of the City and County's long-term care continuum of services. Long-term care services are provided over an extended period of time to people who are limited in their ability to live independently because of physical, mental or cognitive impairment. Long-term care can be home and community-based services like home health, and institutional services like nursing home care (such as Laguna Honda).

The City and County must replace Laguna Honda Hospital to meet federal skilled nursing standards, as well as, seismic safety standards. The San Francisco Health Commission supported the creation of a planning committee to bring recommendations on how to rebuild Laguna Honda Hospital to the Health Commission, Board of Supervisors and the Mayor. As a result, the Laguna Honda Hospital Replacement Planning Committee was formed. The Committee is chaired by Louise Renne, Esq., City Attorney and co-chaired by Mitchell Katz, M.D., Director of Health.

Membership on the Planning Committee is diverse, representing the perspectives of consumers, providers, advocates, community-based organizations, labor, business and others. The Committee developed three sub-committees to help it formulate recommendations:

- Program Sub-Committee: make recommendations on the appropriate array of programs and services for the Hospital and on the campus of Laguna Honda,
- Technical Build Sub-Committee: assess technical aspects of any building option and
- Finance Sub-Committee: examine the costs and financing issues related to rebuilding the campus.

Attachment A (page 45) provides a listing of the Planning Committee and Sub-Committee membership. The Planning Committee reported its recommendations to the San Francisco Health Commission in April 1999.

The San Francisco Health Commission adopted a resolution supporting the replacement of Laguna Honda Hospital on May 4, 1999. Attachment B (page 49) is a copy of the resolution. The proposed replacement project of Laguna Honda Hospital was approved by the City and County's Capital Improvement Advisory Committee at its April 28, 1999 meeting.

II. NEED FOR REPLACEMENT

A. Complying with State and Federal Licensing Requirements

In 1997, the U.S. Department of Justice (DOJ) initiated an investigation of Laguna Honda Hospital and Rehabilitation Center pursuant to the Civil Rights of Institutionalized Persons Act. The Hospital was selected from among many different publicly-owned institutions, such as mental health hospitals, jails, prisons and nursing homes that the DOJ investigates throughout the year.

As a result of this investigation, in May 1998, the DOJ issued findings indicating its belief that the quality of life and level of activities needed to be improved for Laguna Honda residents. The DOJ acknowledged that the medical care provided at the Hospital was "very good." The DOJ's concern was that Laguna Honda needed to focus on ways to enhance the safety, comfort and activity levels of its residents. "Quality of life" issues raised by the DOJ are tied to the current open ward configuration at the Hospital. The DOJ contends that 30 bed open wards do not afford a resident sufficient privacy, dining and activity space. The Department of Public Health has been working cooperatively with the DOJ and has submitted comprehensive responses to their findings. The materials are currently being reviewed by that agency.

On behalf of the Health Care Financing Administration, the State Department of Health Services does an annual, unannounced survey on Laguna Honda Hospital for licensing and accreditation purposes. In large part, the 1998 survey report focused on the inadequacy of the Hospital's physical structure, particularly the open wards, and the lack of dining room spaces and activity rooms. State and federal regulatory agencies indicated that these issues needed to be addressed in order to maintain Laguna Honda's contract as a Medi-Cal provider and to receive Medi-Cal reimbursement. The Department of Public Health worked cooperatively with the State Department of Health Services and the Health Care Financing Administration (HCFA) to submit a plan of correction. In June 1998, HCFA accepted the Hospital's plan of correction. The Plan of Correction will:

- reduce census to increase privacy and permit storage space
- create permanent dining areas and
- enhance activity therapy.

By January 1999, all open wards were decreased from 30 persons to a census of 26 persons. This reduction was accomplished by: (1) instituting a moratorium on new admissions, except those coming from San Francisco General Hospital who have no suitable alternative place, and (2) relocating existing doctor and nurse offices to increase the number of semi-private rooms for residents. As a result, the census at Laguna Honda Hospital was reduced from 1,166 to 1,065.

In April 1999, the Department of Justice did another site review of the facility to continue monitoring conditions at the Hospital. However, the census reduction has had negative impacts. As a result of the moratorium, acute care hospitals, are unable to place individuals needing skilled nursing care at Laguna Honda. When they are unable to

place an individual at Laguna Honda, that person remains in the acute care hospital. The lack of a sufficient number of skilled nursing beds congests acute care beds throughout San Francisco resulting in appropriate utilization of acute care services and higher healthcare costs than necessary.

HCFA's approval of the Hospital's Plan of Correction still does not fully address the overriding concerns of HCFA, the Department of Justice or the State Department of Health Services -- all of whom are unanimous in their opinion that open wards are not legally compliant, obsolete and inappropriate patient care settings. Under this Plan of Correction, the City and County of San Francisco is still receiving a waiver to operate Laguna Honda Hospital since HFCA rules require that there be no more than four (4) residents per room.

B. Supply and Demand of Skilled Nursing Facility Beds

The need for skilled nursing beds will increase as the number of persons over the age of 65 and those potentially needing long-term care grow. In 1997, the San Francisco Nursing Facility Bed Study found a projected deficit in the number of skilled nursing facility beds. The Nursing Facility Bed Study was based on Laguna Honda maintaining its 1997 capacity of 1,214. The study found the following:

TABLE 1
Supply and Demand for Skilled Nursing Facility Beds – San Francisco

	Year 2000	Year 2010	Year 2020
SNF Bed Rate per 1,000 persons 65 years of age and older	33	33	33
Projected Demand for SNF Beds	3,831	4,282	6,005
Projected Supply of SNF Beds	3,625	3,625	3,625
Surplus/Deficit of SNF Beds	-206	-657	-2,380

Table I assumes that San Francisco's use of skilled nursing facility beds remains the same at 33 beds per 1,000 persons 65 years of age and older. However, even if the City and County is successful at decreasing the use of skilled nursing facility beds, by increasing community alternatives, we will still have a significant deficit of skilled nursing facility beds as shown in Table 2 on the next page. The projected supply for Laguna Honda has been adjusted to 1,065 to reflect the current census of the Hospital under the moratorium on admissions. As a result, the overall projected supply of skilled nursing beds decreases from 3,625 to 3,476.

TABLE 2
Projected Supply and Demand for SNF Beds
(Based on Oregon's Experience)

	Year 2000	Year 2010	Year 2020
SNF Bed Rate per 1,000 persons 65 years of age and older	33 SNF beds per 1,000	30 SNF beds per 1,000	27 SNF beds per 1,000
Projected Demand for SNF Beds	3,831	3,894	4,913
Projected Supply	3,476	3,476	3,476
Shortage of Beds	-355	-418	-1,437

If San Francisco chooses not to maintain Laguna Honda Hospital or to rebuild the Hospital with less than its traditional 1200 beds, then the shortage of beds increases. Under such circumstances the City and County is meeting fewer and fewer of the nursing facility needs of elderly and disabled adults.

C. Access to Private Long-Term Care Nursing Facility Beds

The Department of Public Health has studied several scenarios for replacing all or a portion of Laguna Honda Hospital beds with beds in the private sector. However, these options do not appear to be viable.

First, the supply of beds in the private sector is limited. In 1997 when the Nursing Facility Bed Study was done, a projected 271 beds were identified by acute care hospitals as potentially convertible to skilled nursing beds. However, since that time, many acute care hospitals are close to capacity and have used existing space for research and/or physician office space. These hospitals have experienced increased census and, as a result, are reluctant to convert acute care beds to skilled nursing beds. It is important to note that even if the 271 conversion were included in the above table, there would still be a deficit of skilled nursing beds.

Second, although acute care beds are at a higher standard than skilled nursing beds, construction costs are needed to transform an acute care ward into a skilled care nursing ward. The reason is that there are specific requirements for skilled nursing beds that don't exist for acute care wards (e.g., separate dining rooms). When San Francisco General Hospital converted an acute care ward to a skilled nursing ward the cost of the construction was \$400,000 for a single ward. Most non-profit hospitals are reluctant to invest in renovating acute care wards to meet skilled nursing requirements because skilled nursing beds receive markedly less reimbursement than acute care beds. While Medi-Cal pays a maximum of \$214.90 a day for distinct part skilled nursing needs, acute care hospitals often earn between \$1,200 and \$1,500 a day for acute care patients.

Third, hospitals in San Francisco are currently planning to bring their facilities into compliance with more stringent State seismic codes (under Senate Bill 1953). This makes them reluctant to pursue changes in the use of their buildings until they have determined how they are going to be in compliance with these codes. Fourth, the reimbursement rate for skilled nursing care is insufficient to meet the cost of providing

this care. This is the reason that acute care hospitals have kept wards vacant rather than turn them into skilled nursing wards.

The Department has also pursued the placement of existing residents at Laguna Honda Hospital in residential care facilities. We believe that this is a viable option for some residents. The problem is that there is an acute shortage of medical Board and Care Homes, psychiatric Board and Care Homes, homes for adult mentally retarded persons, residential care facilities for the blind and disabled and other assisted living arrangements. However, as discussed in the section on San Francisco's demographic trend for long-term care, even if we are successful in building community alternatives to Laguna Honda Hospital (as we should) the absolute needs for long-term care will overshadow our efforts to decrease the proportion of residents in institutional settings. There remains now, and in the future, a large group of patients, who because of their complex needs, can only be cared for in a 24-hour skilled nursing facility.

D. County Provision of Long-Term Care Nursing Facility Beds

Laguna Honda is not the sole provider of skilled nursing care in the community as Table 3 indicates. There are currently 3,476 nursing facility beds in the San Francisco. Laguna Honda accounts for approximately 31% of all nursing facility beds and supplements a serve that is not met by the private and non-profit providers. Nursing facility beds are provided by the following:

TABLE 3
Skilled Nursing Beds – San Francisco

Facility	No. of Beds
Freestanding Nursing Facilities (19 facilities not associated w/ a hospital)	1,404
Laguna Honda Hospital	1,065
Hospital-based Nursing Facilities (8 of San Francisco's acute care hospitals operate distinct part nursing facilities)	450
The Jewish Home for the Aged	437
Veterans Administration Nursing Home	120
All Facilities	3,476

The issues surrounding the City and County's direct provision of skilled nursing care are similar to its role as a safety net provider. Safety net providers are those that provide a significant amount of care to low-income and indigent patients.

The safety net is in place because by mission and law -- California counties serve as the health care provider of last resort. They serve in this role because the private and non-profit sectors are either unwilling and/or unable to provide the level of care needed for the population. As such, the County is responsible for vulnerable populations with a variety of complicated health and social needs which require a wide range of integrated support services. Counties either provide the services or pay for services in the private or non-profit sector. The Department provides services directly and contracts with

community providers. Most counties with public hospitals have chosen to remain in the business because it is less costly to contract with the private sector where over the long run they may not have as much leverage.

This can be applied to nursing facility care in which counties may provide skilled nursing care directly, contract with other providers in the community or not provide the service at all and rely entirely on private and non-profit entities to deliver this care. It should be noted that the Laguna Honda Hospital Replacement Planning Committee's first vote was to determine whether the Hospital should be rebuilt before voting on the nature of the replacement. The Committee voted unanimously to replace the facility. This vote affirmed the City and County's role as a direct provider of skilled nursing care.

A fundamental role of government (at all levels) is to intervene when the market place does not provide a service and/or supplement what the private and non-profit sectors are providing to appropriately meet the needs of the community. In the case of skilled nursing care, Medi-Cal is the primary payer of this care. As you are aware, Medi-Cal is a federal program which is administered by the State and funded by the federal and state governments. Nursing facility care is an arena in which the federal and state governments have made a financial commitment to provide the elderly and disabled adults have access to 24-hour care. The government has intervened to ensure that financial barriers do not impeded access to nursing facility care.

While Medi-Cal pays for nursing facility care, it is not required to pay for the total costs of providing the service. As a result, some providers have chosen not to care for persons receiving Medi-Cal and many entities have chosen not to develop skilled nursing facility beds because of the low reimbursement. This is primarily because the costs of constructing nursing facility beds coupled with the relatively low reimbursement can make it a less financially viable area for health care entities to succeed in. This is particularly true in California where market competition in health care has created financial pressures which limit the ability of hospitals, providers and clinics to provide care for the uninsured and for patients with limited public reimbursement.

In addition, Medi-Cal reimburses nursing facility providers differently based on the facilities' designation. Most nursing facility providers are reimbursed as freestanding facilities and receive approximately \$90 per day. The populations cared for at freestanding long-term care facilities are not comparable to the populations cared for at distinct part skilled nursing facility such as Laguna Honda. Laguna Honda cares for a more acutely ill population, a less mobile population and a population which has more concomitant behavioral health issues than are cared for in a free standing facilities. Because residents at Laguna Honda Hospital are much sicker than patients in freestanding facilities, they are not accepted into privately operated nursing facilities. As a result, Laguna Honda Hospital must be rebuilt in order to meet the need of SNF care which the private and non-profit sectors are unable and/or unwilling to provide.

The fact that some providers choose not to serve the elderly and disabled population or to provide skilled nursing facility care does not change the fact that many residents

need these services. In addition, decreases in nursing home beds cause hospital backlogs and other problems and does not address the demographic trends that are projected for skilled nursing care.

Information on the provision of nursing facility care by government entities was gathered. However, it is important to note that no county has a comparable skilled nursing facility to Laguna Honda Hospital. This is partially due to the fact that Laguna Honda Hospital was constructed as an open-ward, skilled nursing facility before many other facilities were built. Clarendon Hall was constructed in 1909 and building for the resident wards of the main Hospital started in the late 1920s. In addition, while Laguna Honda Hospital a distinct part skilled nursing facility it is licensed as an acute care hospital and acute care hospitals are generally much larger (i.e., have more beds) than skilled nursing facilities licensed as long-term care facilities.

In addition to Laguna Honda, there are 16 other facilities in the State that provide skilled nursing care which are operated by a governmental entity. Table 4 on the next page provides the listing.

TABLE 4
Government Owned and Operated Nursing Facilities -- California

County	Name	Licensure Type	Ownership Type	Licensed Beds (No.)
Alameda	Alameda Cty Medical Center-Fairmont Campus	Acute Hospital	County	154
Alameda	Redwood Convalescent Hospital	Long-Term Care Facility	State	70
Fresno	Kingsburg Medical Center	Acute Hospital	Hospital District	20
Inyo	Southern Inyo Hospital	Acute Hospital	Hospital District	33
Kern	Emmanuel Convalescent-Parkview	Long-Term Care Facility	State	184
Kern	West Side District Hospital and Nursing Home	Acute Hospital	Hospital District	63
Los Angeles	Avalon Municipal Hospital	Acute Hospital	City	4
Madera	Chowchilla District Memorial Hospital	Acute Hospital	Hospital District	19
Madera	Paris-Lamb Health Center	Long-Term Care Facility	State	39
Napa	N M Holderman Memorial Hospital (Veteran's Home)	Acute Hospital	State	1,088
San Bernardino	Veterans Home of California-Barstow	Long-Term Care Facility	State	180
San Diego	Edgemoor Geriatric Hospital	Long-Term Care Facility	City/County	322
San Francisco	Laguna Honda Hospital & Rehabilitation Center	Acute Hospital	City/County	1,214
San Mateo	Crystal Springs Rehabilitation Center	Acute Hospital	County	124
Shasta	Mayer Memorial Hospital	Acute Hospital	Hospital District	99
Sierra	Sierra Valley District Hospital	Acute Hospital	Hospital District	34
Tehama	Tehama County Health Center	Long-Term Care Facility	City/County	67

The only other facility with a similar number of beds to San Francisco is the State facility in Yountville, California -- N M Holderman Memorial Hospital (Veteran's Home) with 1,088 licensed beds. In addition to the facilities noted above, Los Angeles County also has two other hospitals (Los Ranchos Amigos and High Desert) that also provide skilled nursing care but are licensed as acute rehabilitation centers. High Desert has 40 skilled nursing beds and Los Ranchos Amigos has 72 skilled nursing beds.

Attachment C (page 52) provides information on the number of nursing facility beds (both freestanding and hospital) by county. The information indicates that state-wide on average there is 1 nursing facility bed for every 317 residents (this ratio is based on the number of beds that are used by the facility). San Francisco's ratio is 1:241, including

Laguna Honda. If the City and County elected not to provide skilled nursing care or contract with other providers to do so, then San Francisco's ratio would increase to 1:395. This would place San Francisco with fewer nursing facility beds per resident than the state-wide average even though it has more elderly persons as a percentage of its population. The State Department of Finance estimates are that for the year 2000 10.7% of the State's total population will be aged 65 and older and that for San Francisco this percentage will be 15%.

In summary, the City and County of San Francisco must maintain its skilled nursing facility care to:

- reduce the deficit in nursing facility beds and met more demand for this service and
- provide a level of service that private and non-profit providers are unwilling and/or unable to provide for the resident population that uses Laguna Honda.

III. BACKGROUND ON LAGUNA HONDA HOSPITAL AND REHABILITATION CENTER

A. Laguna Honda Resident Population

San Francisco residents are placed in Laguna Honda when they are no longer capable of living independently in the community with support services. Laguna Honda residents require extensive assistance with activities of daily living (i.e., eating, bathing, relieving oneself, dressing, moving from one place to another, etc.). This is particularly true for frail elderly persons who are more likely to suffer from arthritis, which affects their mobility and stability. Approximately 70% of the residents are wheelchair bound.

The average age of a Laguna Honda resident is 72 years old. The average length of stay for individuals residing in Laguna Honda for less than one year is 75 days; for those remaining in the facility over one year the average length of stay is 5 years. For many residents, Laguna Honda will be their last home – approximately one-third of the population dies each year. At this time, it is estimated that one-third of Laguna Honda's residents reside in the facility for less than one year and that two-thirds reside in the facility for more than one year.

Demographic features of the resident population are as follows:

- Gender: 56% are women, 44% are men
- Age: average age of 72 with 12% being under 50 years old, 36% between the ages of 50 and 74, 52% aged 75 and over
- Marital Status: 43% are single, 15% are married, 27% are widowed, 13% are divorced, 1% are separated
- Racial/Ethnic Composition: 43% are European-Amer., 24% are African-Amer., 20% are Asian/Pacific Islander, 10% are Latino, 0.4% are Native-Amer., 2% Other/Unknown
- Financial Status: 97% are on Medi-Cal, 2% are on Medicare, 1% are private pay

Over the past decade, the resident population at Laguna Honda has changed. First, the resident population is progressively becoming more acute. As a result, more residents require sub-acute care and or more extensive medical care in addition to assistance with activities of daily living. Second, an increasing number of residents have substance abuse problems and need treatment services.

All Laguna Honda residents have functional impairments which prevent them from performing basic activities of daily living by themselves. The U.S. Bureau of Census found that the prevalence of functional impairment rises with age – from 9.2% of the population aged 65 – 69 to 49.5% of the population aged 85 and older. This is in contrast to 2.4% of the population between the ages of 15 and 64 who meet the criteria for functional impairment. As noted above, 52% of Laguna Honda's residents are aged 75 and older (with 27% being 85 years of age and older).

The following tables in this section provide functional impairment, mobility status and special care statistics for Laguna Honda residents. The information is taken from

annual reports submitted by the Hospital to the federal government (Health Care Financing Administration OSCAR 4 [HCFA 672] Report). This information was taken from the 1998 report which used 1997 data (the most recent available). Table 5 on the next page provides information on the functional impairment of Laguna Honda residents.

TABLE 5
Functional Impairment of Laguna Honda Resident Population

Functional Limitation	% of Residents Needing Assistance	% of Residents Totally Dependent
Bathing	29%	68%
Transferring from bed or chair	26%	50%
Dressing	33%	57%
Using toilet	22%	58%
Eating	28%	32%

Many Laguna Honda residents have difficulty walking and getting outside. These residents require extensive assistance in this area. Table 6 provides information on mobility status of Laguna Honda residents.

TABLE 6
Mobility Status of Laguna Honda Residents

Mobility Status	% of Residents	% Laguna Honda is Above/Below National Statistics
Bedfast all or most of the time	1%	-6%
In chair all or most of the time	61%	10%
Independently ambulatory	17%	-3%
Ambulate with assistance/devices	15%	-17%
Have contractures	34%	9%

In addition to functional impairment, many Laguna Honda residents have chronic medical conditions which are associated with age and disability. As a result, Laguna Honda residents required ongoing medical management and care. A significant number of the residents have: (1) diseases of the circulatory system, (2) diseases of the nervous systems and sense organs, (3) endocrine, nutritional and metabolic diseases and immunity disorders, (4) diseases of the musculoskeletal system and connective tissue and (5) other symptoms and conditions. As a result of the chronic medical conditions and the elderly nature of the population, a sizeable percentage of Laguna Honda residents receive special care as noted in Table 7 on the next page.

TABLE 7
Special Care Provided to Laguna Honda Residents

Special Care Categories	% of Residents	% Laguna Honda is Above/Below National Statistics
Receive Hospice Care	3%	2%
Receive Respiratory Treatment	5%	-1%
Receive Injections	8%	-2%
Receive Tube Feedings	12%	5%
Receive Mechanically-altered Diets	44%	7%
Receive Specialized Rehabilitative Svcs.	4%	-11%
SK/Rehabilitation Services – Last 7 Days	44%	11%

A significant portion of Laguna Honda's resident population have either behavioral or psychiatric diagnoses which compound their medical ailment.

As the data shows, the Laguna Honda resident population needs extensive help with activities of daily living, is less mobile and have special care needs based on chronic physical and mental health problems. This information will affect the types of programs and services which are offered on the campus. A high level of staff support is being provided on the Laguna Honda campus to allow residents to function on a daily basis. Any rebuilt facility must have the appropriate staff levels to care for the future resident population. It is envisioned that this will continue as San Francisco's elderly population grows and as the demand for institutional-based long-term care continues.

B. Laguna Honda Campus – Land Use Issues

In order to determine what is physically possible with respect to rebuilding Laguna Honda, the Technical Build Sub-Committee provided background information on the land use issues surrounding the campus. The issues on Laguna Honda's campus cover vegetation, topography, land use and zoning, site utilities and geography, and historic designation.

Laguna Honda sits on 62 acres of land in the center of the City. The site is composed of wooded areas, lawns and ground cover. The current zoning for the land is that 50% is designated as open space and the remaining 50% is designated as buildable public space. The abundance of open space lends a pastoral feeling to the campus and neighborhood. In addition, the eucalyptus trees on the site act an important buffer between the Campus and the surrounding neighborhood.

The Campus has a rolling topography with surface elevation variations of approximately 230 ft. and slope gradients range from 15% to 60%. The lowest point of the site is an elevation of 390 and the highest point of the site is at an elevation of 620. As a result of the topography (rolling and steep hills, and changing elevation) significant portions of the land are not suitable for building.

In addition to the zoning designations, the City Planning Code also requires that any area occupied by Laguna Honda buildings be no higher than 80 feet. The neighborhood surrounding the campus has a 40 foot height limit. This restriction limits the number of stories that any rebuilt Laguna Honda can have. The height limit was placed to ensure that any buildings on the campus are not monolithic.

With respect to geology, the Laguna Honda site is typical of the western areas of San Francisco with sandy soil underlaid by clay, sand and shale. There are three major active faults that affect the building on the site. Laguna Honda is very accessible by public transportation. The Twin Peaks Tunnel used by the San Francisco Municipal Railways System runs under the site. There is Muni station directly in front of the campus and a Muni bus stops at the front door of the hospital.

The campus is currently zoned for the use of hospital care. Any additional uses of the Laguna Honda campus would require a obtaining a conditional use permit. This permit would be required if the campus were to house such features as: parking garage, social services, child care, commercial usage, school, church, community center, non-publicly-owned recreational center, etc.

Parts of Laguna Honda are designated as historic properties. The designation was made in 1992 by the Federal Emergency Management Agency and is identified in the California Historic Properties Directory. The designation applies to the color-coded structures in the first few wings of the hospital. The designation occurred when the City and County applied for and received funds from FEMA to pay for damages resulting from the 1989 Loma Prieta earthquake. As a result, the State Office of Historic Preservation must be consulted as part of the process to rebuild Laguna Honda.

With respect to land use issues, historic designation and transportation may be major concerns in replacing Laguna Honda. This effort must comply with the historic designation requirements and we must address neighborhood concerns regarding any potential increased transportation around the campus.

IV. INTEGRATING LONG-TERM CARE SERVICES IN SAN FRANCISCO

In response to the growing need for long-term care services, the City and County has undertaken a planning effort to integrate and improve the delivery system for long-term care services.

In November 1996, the San Francisco Board of Supervisors established the Long-Term Care Pilot Project Task Force. This Task Force consists of service providers, consumers, community advocates, health care professionals, supportive housing advocates, a variety of city agencies, and representatives of managed care organizations, hospitals, nursing facilities, residential care facilities, business, and labor. Laguna Honda Hospital is part of this City-wide effort to provide comprehensive long-term care services (both community-based and institutional) to frail elderly and younger disabled adults. Representatives from the Department of Public Health and Laguna Honda Hospital are on the Task Force.

The Task Force is developing a proposal to submit to the State Department of Health Services pursuant to Assembly Bill 1040 (Bates). San Francisco's overall goals for the system are to:

- allow consumers to remain an integral part of their family and community,
- provide easy access to services,
- offer choices in service settings,
- enable consumers to stay at home for as long as possible and
- enhance consumers' quality of life

The overarching philosophy is to provide the most appropriate care in the least restrictive setting and in a responsible and flexible manner. While the goals stress expanding in-home and community-based long-term care settings, the Task Force appreciates the fact that institutional services are still needed. Laguna Honda Hospital would be a part of the proposed long-term care system. The Task Force report clearly states that institutional services would be a part of the continuum of long-term care services. This is particularly important to note in light of the growing elderly population within San Francisco who may need institutional care.

The Task Force is proposing that a locally-run, long-term care services agency be established to develop multiple provider networks. The long-term care services agency will: (1) establish the requirements that will guide the formation of the networks, (2) negotiate a capitated budget with the State and (3) administer the funding. Each network will have a continuum of social and medical services. This system should vastly improve care coordination for consumers – integrated case management is central to the service system. Services will be provided in homes, community-based settings, residential care facilities and institutions.

Laguna Honda Hospital Replacement Planning Committee recognizes that the Long-Term Care Pilot Project Task Force is exploring ways to develop a more comprehensive long-term care service delivery system for elderly and disabled adults. The Planning

Committee does not believe that the replacement of Laguna Honda is in conflict with the goal to care for individuals in the community when it is appropriate to do so. As part of this planning process, the Planning Committee adopted the following statement: "Consistent with the decisions approved by the Laguna Honda Hospital Planning Committee, the Committee supports the care of elderly and disabled adults in the least restrictive home and community-based environment whenever possible." The Planning Committee believes that its recommendation to replace Laguna Honda is consistent with this because skilled nursing facilities should be designed for those who cannot be cared for in their homes or community.

V. LAGUNA HONDA HOSPITAL REPLACEMENT PROGRAM

In February 1999, the Laguna Honda Hospital Replacement Planning Committee was established to develop a replacement proposal for the Laguna Honda campus. In April 1999 the Planning Committee presented its findings to the San Francisco Health Commission. The proposed replacement was also submitted to the City and County's Capital Improvement Advisory Committee in April 1999 by the San Francisco Department of Public Health.

The Planning Committee worked with consulting firms in the areas of architecture, construction, engineering, finance and housing to develop the replacement program. In the early 1990s, the consulting firm of Kaplan, McLaughlin and Diaz (KMD-Gordon H. Chong and Partners) was retained to prepare a Facility Master Plan for Laguna Honda Hospital. This effort entailed doing an assessment of the existing facility, developing an operational and space program, and conducting a facility and site development analysis. Information from this Facility Master Plan was reviewed and used by the Planning Committee. Under the proposed replacement proposal, with pro bono assistance of Anshen & Allen Architects, Kaplan, McLaughlin and Diaz, and Turner Construction Co., the number of beds within the hospital would increase from the current level of 1,065 to 1,200 and 140 assisted living units would be placed on the campus.

A. Previous Bond Program Analyses

In developing the 1994 Facility Master Plan, three options were explored to address the long-standing physical and structural deficiencies of Laguna Honda Hospital. The options were:

- Option A: Minimal new construction – The existing hospital is retained and the entire facility is renovated. The proposed costs would have been \$759.8 million. Because of the sequential nature of seismically upgrading and renovating the facility, the period of constructions was projected at 11 ½ years.
- Option B: Multi-phased replacement – This option called for a partial replacement of some patient care wards on a phased-in basis. The proposed costs would have been \$574 million. The project construction period was 7 ½ years.
- Option C: Three-Phase replacement – Complete replacement of the existing facility (includes patient care wards and support services). The proposed costs would have been \$482 million. The project construction period was 10 years.

Each of the options was evaluated based on criteria ranging from construction cost to impact on operations to expandability/flexibility of the model.

Neither Option A nor Option B were considered preferable. Option A was the most costly and the least desirable for the following reasons:

- required combination of both seismic upgrade and renovation of the existing buildings is more costly than new construction,
- cost of the infill construction is high due to the constrained and limited areas within which the work must take place and

- effect of inflation is greater since the length of time required to complete the renovation is longer than in other approaches.

While Option B provided almost complete replacement of the hospital facility, but was not advantageous for some of the following reasons:

- hospital operations would be disrupted during 7 ½ year construction process,
- construction in steeply sloped areas or in areas confined by other structures making renovations more difficult and more expensive and
- replacement hospital would rise four stories above existing building, obstructing neighborhood views and engendering community opposition.

In the evaluation process, Option C (completely rebuilding the facility) received the highest rating. Rebuilding the facility was preferable because it had:

- lowest construction and project cost,
- shortest time frame for construction of main patient wards,
- least disruption to ongoing operations during construction,
- best operational efficiency upon completion and
- best neighborhood compatibility and acceptance due to low profile created by location in valley portion of the site.

The reasons cited in 1994 for the selection of Option C over Option A or B exist today.

Finally, the 1994 Facility Master Plan did explore the option of doing no new development. It was found that this option would seriously jeopardize the future of Laguna Honda Hospital. Under this option, the only work that would be done would be to bring the existing nursing wings into code compliance. It was estimated that the construction costs for these nursing unit renovations would exceed \$150 per square foot or \$100 million for all nursing units. In addition to these costs, it was noted that any type of re-modeling would trigger mandated updating of all building systems serving those areas. Furthermore, these renovations would require the Hospital to reduce its overall bed capacity by 50%. The proposition was deemed cost prohibitive.

There was also the concern that if Laguna Honda Hospital is not replaced, then the City and County would be at risk for loss of \$91 million in revenue because the Hospital is not in compliance with the Health Care Financing Administration requirement for 4 bed hospital rooms. This concern still exists.

B. Alternative Sites

The Planning Committee considered alternative sites, but none were considered suitable. This finding was also noted in the 1994 Facility Master Plan. The Planning Committee recommend that the new replacement of Laguna Honda be located on the existing Forest Hills Site.

Laguna Honda currently sits on 62 acres of which 50% is zoned as buildable land and 50% is zoned as open space. Geographically, Laguna Honda is in the middle of the City. There is a Municipal Railway underground station directly across from the campus. In addition, there is a Municipal Railway bus that stops directly in front of the main doors of the Main Hospital. Both allow for easy public access to Laguna Honda.

The campus can support not only the replacement of the skilled nursing facility, but can also support other housing options for frail elderly and disabled adults. No other large site exists in the City and County.

There is very little remaining space available for development in San Francisco given the relative small size and existing density of the City and County. Specifically four other areas: Bayview Hunters Point Shipyard, Treasure Island, Mission Bay and the Public Health Hospital were examined. None of these spaces will be able to accommodate the safety, space or transportation needs for the campus. Below is a brief discussion of the sites:

- Bayview Hunters Point Shipyard: This area contains substantial soil and ground water contamination. The Shipyard is currently under the control of the U.S. Navy, and the Navy's clean-up of the site is projected to take many years. Thus, it would take longer to develop a new hospital at the Shipyard than at the current Laguna Honda site.
- Treasure Island: Treasure Island is also under the control of the U.S. Navy, although the City and County has plans for its reuse and civilian leasing is beginning. Access to the island is constrained however, and land is subject to the Tidelands Trust. There is no remaining space on the island to accommodate Laguna Honda.
- Mission Bay: This area, like Treasure Island, is in the process of being developed and the land has been designated for development and other services.
- Public Health Hospital: This hospital was vacated by the federal government. It does not have adequate space to accommodate a 1200 bed facility. In addition, there is no easy transportation to this area. The hospital has also been vandalized, is in need of extensive repairs and does not comply with seismic safety standards.

C. 1999 Proposed Bond Program

Based on the work of the Laguna Honda Hospital Replacement Planning Committee and previous work done by Kaplan, McLaughlin and Diaz, the Department of Public Health is proposing a new replacement plan for Laguna Honda Hospital and placement of assisted living on the campus. The estimated program cost (including financing costs) is \$437,045,000.

Under the replacement plan, the City and County would maintain Laguna Honda as predominately one large, single-site institution. The new hospital would have a majority of 1-bed and 2-bed rooms which would bring Laguna Honda in compliance with Health Care Financing Administration regulations. There would be no open 30-bed wards. The private and semi-private rooms will provide residents with more privacy for personal matters and medical treatment, and decreased noise. The Laguna Honda replacement plan is comprised of four projects as indicated in Table 8 on the next page:

TABLE 8
Proposed Project Components

Project Number	Title	Description of Activities	Completion Date	Cost
Project 1	Temporary Central Plant	Install temporary central plant (e.g., laundry, shop, boiler plant, etc.) and demolish the existing central plant in Clarendon Valley. Prepare site for new hospital. Demolish Clarendon Valley. Conduct hazardous material abatement.	October 2001	\$ 5,920,167
Project 2	1200 Bed New Hospital	Build new 1200 bed hospital in Clarendon Valley. After new construction is completed all nursing wings of the current main building and Clarendon Hall would relocate into the new structure.	Summer 2006	\$346,992,569
Project 3	140 Assisted Living Units	Demolish Clarendon Hall and prepare site for the development of assisted living units. Clarendon Hall site can accommodate 140 units. Includes City and County match of \$15 million to leverage additional federal funds to build assisted living units	Spring 2009	\$ 21,817,348
Project 4	Former Hospital Building	Upgrade and remodel existing administrative and support services space within the current main building. Demolish rear portion of old nursing wards. Complete site improvements	Spring 2009	\$ 53,977,403
	1200 Beds & 140 Units			\$428,707,487
		Issuance Cost		\$ 8,337,513
		Total Cost		\$437,045,000

The capital improvements funded by this bond proposal can be classified in four distinct design and construction projects, including demolition, replacement, new construction and renovation. The phasing of the four projects takes into account the functional difficulties of moving patients, maintaining current bed capacity, crossover of site utilities, and continuing operations during construction. The four construction projects can be described as follows:

- Project 1- Temporary Central Plant
Temporary central plant facility which will be constructed to provide for site utilities, boiler plant, emergency generator, and maintenance shop. Existing Boiler House, Laundry, Emergency Generator House, Bridge Building, Greenhouse, and other miscellaneous structures will be demolished after utilities are cut over. Art and telephone/data systems.
- Project 2- New Hospital
New construction of a 1200 bed Skilled Nursing Facility with adjacent patient support services. Included are site development directly related to this building and construction of permanent central plant.
- Project 3- Assisted Living Clarendon Hall
Demolish Clarendon Hall and prepare site to accommodate 140 assisted living units and City & County matching funds for construction.
- Project 4- Former Hospital Building
Former main hospital building and Wings A and B are upgraded, historically renovated and interior remodeled for use for support and administration functions. Previous nursing wings are demolished and complete site improvements are made on the campus.

In November 1994, the Planning Commission approved Laguna Honda Hospital's Institutional Master Plan which included the recommended plans for rebuilding the facility. In July 1998, the Planning Department issued a General Plan referral indicating that the 1998 Replacement Plan for Laguna Honda Hospital Bond proposal conformed with the City and County's General Plan. This current replacement proposal is not substantially different from the 1994 recommendation or the 1998 bond program. In April 1999, the Department of Planning issued a statement indicating that this proposed 1999 replacement plan for Laguna Honda was consistent with the City and County's General Plan.

VI. PROGRAM RECOMMENDATIONS FOR REPLACEMENT FACILITY

The care at Laguna Honda should be focused on residents and centered around their clinical, functional and psychosocial needs. The goal is to provide restorative and rehabilitative care to residents. Laguna Honda's skilled nursing facility should be used for residents who need this level of care and that other long-term care consumers should be served in less restrictive settings whenever possible.

To ensure that these fundamental concepts are understood and appreciated, a preamble was developed which provides the context for why it is necessary to rebuild Laguna Honda and what role Laguna Honda has in caring for the elderly and disabled population. The preamble appropriately set the stage for the Planning Committee's recommendations. The preamble is as follows:

"The replacement of Laguna Honda Campus gives the City and County of San Francisco an opportunity to build a modernized skilled nursing facility that addresses the clinical (i.e., medical, nursing, rehabilitative, social and nutritional care), functional, psychosocial and residential needs of the population. As much as possible, the Laguna Honda campus should provide a full spectrum of housing options to frail elderly and disabled adults. Laguna Honda is not solely a campus containing skilled nursing facility care.

Laguna Honda provides a comprehensive array of programs and services to frail elderly, disabled persons and other persons who cannot be cared for within the community or within their homes. As a result, when individuals transition into Laguna Honda the environment should be supportive, promote independence and maintain a sense of community for the residents. The current and future residents of Laguna Honda are a heterogeneous group with many different clinical needs, social support systems, and cultural, ethnic and religious identification. The San Francisco community recognizes and appreciates these different needs and develops programs in response to the resident population."

A. Program Principles

As part of its work, a set of principles was developed to guide program recommendations. The principles are designed to provide the framework for what programs should be contained on the campus, number of beds in the skilled nursing facility and bed configuration.

Recent trends in long-term care are focusing on enhanced privacy for residents in skilled nursing facilities. At the same time, there is a keen interest in preserving the community aspects of open wards which reduce isolation, allow for social interaction and stimulation and create a feeling of community for some residents. The principles outlined below attempt to balance these competing perspectives. Please note that there is no implied prioritization in the ordering of the principles.

1. Any rebuilding of the Laguna Honda Campus should create a residential environment that promotes individualized care and supports a feeling of community and home-like settings.
2. The Laguna Honda Campus should be designed to ensure that residents have adequate privacy and should provide appropriate space for resident activity and dining.
3. The Laguna Honda programs and buildings should include a full continuum of care settings for residents (such as assisted living and residential care) based on clinical needs.
4. Flexibility should be built into the architectural space to ensure appropriate use of resources and create the least restrictive format possible.
5. Flexibility should be built into the design of the programs to meet the needs and expectation of the diverse clinical, functional and cultural resident population.
6. An excellent standard of care should continue to be provided by all programs.
7. Programming should be interdisciplinary with a full range of clinical (i.e., medical, nursing, rehabilitative, social and nutritional care) and psychosocial care
8. Programs should promote sensory and psychosocial stimulation, ensure resident interaction with staff and other residents, promote independence and address functional and cognitive impairment.
9. Resident and family member input should be an integral component in the development of programs and activities on the Laguna Honda Campus to ensure that they are resident-centered.
10. Residents on the Laguna Honda Campus should remain a part of the San Francisco community and have access to and participate in activities to the best of their ability off Campus.
11. Non-resident programs for frail elderly and disabled adults should be expanded.
12. Adequate numbers of qualified and trained staff must be available to provide services to the residents as specific programs are expanded and developed to meet the complex needs of the Campus.
13. Resident and non-resident programs on the Laguna Honda campus should have an intergenerational perspective.
14. The Laguna Honda campus should have a role in public service in education to the community and it should continue to be a training site for health professionals.

The program recommendations for the replacement facility are in the following areas:

- number of skilled nursing beds,
- design of units,
- number of beds per unit,
- number of beds per room,
- dining and activity areas,
- bathrooms on units and
- programs and services.

B. Number of Skilled Nursing Beds/One New Skilled Nursing Facility

The recommendation is for 1200 skilled nursing beds on the Laguna Honda Campus. This recommendation is based on the projected need for skilled nursing facility care.

This recommendation calls for discontinuing the use of Clarendon Hall and building one skilled nursing facility with 1200 beds. One 1200-bed facility will improve operational efficiency because separate remote sites can be expensive. It will also ensure that all residents have equal access to services and amenities. Finally, housing all skilled nursing residents in one facility will ensure that all residents are in a seismically safe building.

C. Design of Units

The recommendation is for a cluster design model for the patient units. With a cluster design, rooms are situated such that all bedroom doors open toward a central area of common services and the nurses' station. This design feature is critical because it ensures that staff is closer to where residents are served and allows the facility to create a community atmosphere. Residents will gravitate towards the center where they can participate in activities and converse with others. The nursing stations could be placed just beyond the center of the semi-circle allowing residents easy access to providers if they need medical assistance or assistance in performing an activity of daily living. Fundamentally, the cluster design enables us to preserve some of the benefits of the open ward model while creating privacy. The traditional design, in which rooms are situated down a corridor, is not preferable for the new skilled nursing facility. It would contribute to isolation, be counterproductive to creating a sense of community and home-like settings and be labor intensive to staff therefore not as efficient as the cluster design.

D. Number of Beds Per Unit

The recommendation is that no more than 60 beds per skilled nursing facility unit. The skilled nursing facility units are the hubs of resident activity. Resident life will be centered around the unit individuals reside in. Activities, dining and nursing care support will be provided to groups of residents. The Sub-Committee believes that maintaining units which are no more than 60 people is appropriate. It is important to note that a 60-bed unit should not imply that a nurse would take care for 60 residents at a time. A 60-bed unit can be broken into satellites (or smaller units). For example, a sixty-bed unit might have four 15-bed satellites, three 20-bed satellites or two 30-bed satellites.

E. Number of Beds Per Room/20% Private and 80% Semi-Private Rooms

The Planning Committee recommends that the new replacement facility have a majority of 1-bed (single) and 2-bed (double) rooms, specifically 20% private and 80% semi-private. A maximum of seven 4-bed rooms is recommended. While 4-bed rooms meet federal standards, they are not the prevailing standard among nursing facilities. Nationally there has been more increased emphasis and demand for resident privacy in skilled nursing facility. Increased privacy relates not only to the resident's ability to sleep uninterrupted, but also to their ability to have private visits, participate in individual activities and other issues. As a result, more skilled nursing facilities are being constructed with single and double rooms. This configuration of rooms also allows for fully utilizing beds by reducing the need to leave a bed vacant if a new resident is not of the same gender as other residents in the room. Finally, it is believed that this

configuration will allow the Hospital to more appropriately address the needs of residents who may be disruptive.

F. Dining and Activity Areas

The recommendation is that multi-purpose activity and dining areas be placed in each unit. It is important to ensure that each unit has adequate space for dining and activities. Laguna Honda residents need ready access to these areas. Having activities on the units furthers our goals of providing sensory stimulation, interaction and psychosocial support to residents. The areas should be designed to ensure multiple uses and purposes. The dining area should have the capacity to serve all residents in a unit and smaller numbers of residents. Serving smaller numbers of residents can help ensure that meals are provided in a community and home-like environment.

G. Bathrooms on Unit

The recommendation is that each room have private access to a toilet and sink (single, double and 4-bed rooms). It further recommended that no communal baths or showers be installed. As the functional impairment of Laguna Honda residents' increase, it is critically important that residents have access to bathing and toileting facilities that are in or near their rooms. The distribution of baths and showers must reflect the functional ability of the residents. As more elderly and disabled adults age-in-place at Laguna Honda, lose their ability to wash themselves independently or have mobility problems, it may be appropriate to ensure that residents have more access to baths. No specific recommendation is made with respect to placement of showers or baths in resident rooms. However, it does provide the following guidance and recommendations on the following:

- Showers
 - No communal showers
 - Ensure that residents who prefer showers have that choice available to them
- Baths
 - No communal baths
 - Continuation of bathing facilities for those needing therapeutic baths and those unable to take showers
- Assisted Bathing
 - At least three assisted bathing areas (with toilet, bath and shower) for every 30 beds
- Toilet
 - Each room have private access to a toilet and sink
 - A toilet and sink area should be near each unit's multi-purpose activity area

H. Programs and Services

The current array of services on the Laguna Honda campus be continued. This includes the continuation of acute care services on the campus.

It is important to ensure that residents have access to activities which promote independence, stress mobility, maintain functional capacity and normalize residents' lives. The programs and services at Laguna Honda should stress restorative and

rehabilitative care and must meet the needs of the future Laguna Honda population. The programs and services must also take into the account that the resident population has become more acute, is more likely to have substance abuse problems and have more multiple diagnosis.

Programs and services offered on the Laguna Honda campus that serve San Francisco residents who do not live at the facility should be expanded. Many elderly and disabled adults use the Adult Day Health and Senior Nutrition Program on the campus. These services are critical for long-term care consumers residing in their homes and communities. As a result, the project proposes expansions in the existing Adult Day Health Care, Senior Nutrition and Animal/Horticultural Therapy programs along with the development of a child care center for employees and aqua therapy for residents. These programs are being expanded to meet community needs. The program enhancements promote: (1) resident interactions with individuals who do not reside at the facility and (2) inter-generational programming. Expansions of these programs may also ease the transition for people who may soon reside at Laguna Honda but who are now using the campus for outpatient services.

The Hospital's current licensed capacity for adult day health is 65 persons a day and the licensed capacity for senior nutrition is 55 persons a day. The recommendation is to expand these programs by allocating additional square footage area which will enable them to service more individuals and provide more activity space. The estimates are that the adult day health center would serve an additional 25 persons bringing the total number of people served by the center to 90 (this is a 38% increase in the number of people served). Of the additional 25 adults, 10 would be part of the current adult day health center program and 15 would be in a newly developed Alzheimer's adult day health center program. The Planning Committee felt that it was important to develop this new program to respond to increasing community need.

It is estimated that the senior nutrition program would increase its capacity from 55 to 85 – 100 adults per day (an increase of 55% - 82%). An increasing number of elderly persons, who live in the community, need access to nutritional programs and meals. The expansion of Laguna Honda's senior nutrition program is designed to serve more adults in the surrounding communities and neighborhoods. The additional space for animal/horticultural therapy will allow more residents to use this program. The area for animal/horticultural therapy will be more accessible (both in terms of hours of operation and in terms of physical access). In addition, more area will be devoted to resident planting and other horticultural activities.

Attachment D (page 54) provides the programs and services recommended for the Laguna Honda campus.

VII. TECHNICAL BUILD ASPECTS OF THE LAGUNA HONDA CAMPUS

The technical aspects of the project relate to the architectural, engineering and construction aspects of the proposal. The following design goals should be met during the construction of the new facility:

- allow continued operation of the existing hospital during construction of its replacement,
- retain the historically-significant main building façade and its park-like setting,
- compose the new building to minimize its apparent bulk, preserve neighborhood views and respect the site topography,
- provide easy access for residents to outdoor gardens and terraces,
- cluster patient rooms into small social groupings,
- organize new and existing public amenities into a community concourse and
- create a residential, home-like, non-institutional environment.

A. Placement of New Facility on Campus

The Planning Committee is recommending that the new hospital be placed in Clarendon Valley on the existing campus. Clarendon Valley is recommended for the following reasons:

- it is one of the few level pieces of land on the campus,
- it has sufficient space to accommodate a new hospital without exceeding the 80 foot height restriction and
- it enables the City to build a new hospital without disrupting the current resident population (i.e., building on the campus can occur while maintaining the current census at the existing hospital).

Clarendon Valley is situated in between the Hospital and Clarendon Hall. Currently the valley is used for parking. It also houses the central plant (i.e., boiler, laundry, etc.).

Comprehensive site and traffic access improvements are included in the this building program. The building program does not propose demolishing the existing administrative wings of the current Hospital. This portion of the Hospital would be retained and code-required improvements would be made. The proposed program totals 812,023 square feet.

B. Project Delivery Approach

A project delivery approach based on the design/build model is being recommended. Under the design build contracting option the City and County would not have separate architectural and construction contracts, but one single contract with a team consisting of a designer, builder and often a financier. Selection of the contractor is based on qualification and not on price – the contract is negotiated. Financing may be private and may be structured as a long-term lease back. The City recently adopted a Design-Build Ordinance (Administrative Code Section 6.09).

The Sub-Committee considered eight approaches, but chose the design/build model because of the following reasons:

- availability of pre-construction services for costs and constructability,

- shorten design and construction period,
- create flexibility in the number and timing of bid packages and
- obtain competitive pricing.

C. Construction Phasing

Construction for the project would be in four primary components which comprise several phases. In the minimum program it consists of the following:

- Temporary Central Plant: In order to build in Clarendon Valley, the existing central boiler plant must be destroyed. A temporary mechanical facility and central plant will be developed during the period of construction. During this phase demolition in Clarendon Valley will occur along with any hazardous material abatement.
- New Skilled Nursing Facility: Building of the new 1200 bed facility with support services. After the facility is built, residents in the old building and some residents of Clarendon Hall would be transferred to the new building.
- Clarendon Hall Demolition/Assisted Living: Clarendon Hall would be demolished and the land would be made available for assisted living units.
- Former Hospital Building: This phase consists of upgrading and remodeling the administrative areas of the old hospital and demolishing the former patient areas in the rear of the old hospital.

VIII. ASSISTED LIVING

The recommendation is that assisted living be located on the Laguna Honda campus. The assisted living units on the campus are above and beyond the 1,200 skilled nursing beds that is recommending. The recommendation is that any bond measure that goes before the voters for Laguna Honda include language which commits the City and County to expanding assisted living on the Laguna Honda campus and elsewhere in the City as appropriate. This recommendation provides partial funding (i.e., anticipated City and County match for federal funds) for assisted living to be included on the Laguna Honda campus.

It has been determined that 140 assisted living units could be placed on the Clarendon Hall site. The assisted living would be constructed once Clarendon Hall is demolished – estimated to begin in the Summer of 2006. It is anticipated that the assisted living units would be ready for occupancy in Spring 2009.

There is no uniform definition of assisted living. However, in its simplest form it can be thought of as housing with extensive support services which enable disabled individuals to live as independently as possible. Assisted living relies on a social approach to providing care to long-term care consumers because of the non-institutional approach to coordinating clinical and psycho-social care.

The Long-Term Care Pilot Project Task Force projects that by the year 2020, over 7,000 elderly will need supportive housing (i.e., assisted living, co-location, service enriched congregate, etc.). There is currently a shortage of assisted living for elderly and disabled adults in San Francisco. As a result, some long-term care consumers may fail in their community or be inappropriately placed in a skilled nursing facility because it is the only place where they can receive assistance with activities of daily living.

The San Francisco Health Commission, Department of Public Health and Laguna Honda Hospital Replacement Planning Committee believe that placing assisted living on the Laguna Honda campus is appropriate to ensure that the campus has a continuum of services for frail elderly and disabled adults. Laguna Honda should be an environment which offers a continuum of options for residents and their families. Assisted living is a critical component in our efforts to delay or avoid placing individuals in skilled nursing facilities.

Assisted living has become more in demand for disabled adults, persons with chronic illnesses and others because it promotes independence, stresses privacy and individualizes services to meet a resident's needs. Assisted living allows individuals to age in place. Assisted living is also important within the context of younger disabled adults. Young people with disabilities have greater access to assistive technologies which can enable them to function in the community as independently as possible. However, in order to function within the community, supportive housing such as assisted living is needed.

The recommendation for a single building (versus multiple smaller buildings on the same site) was influenced by the fact that this is the best way to preserve land for assisted living. Demolishing Clarendon Hall is necessary to prepare the site for assisted living. In addition, demolishing the unoccupied building will eliminate the need to do ongoing maintenance and will eliminate any security problems. Demolition of the site allows for the development of assisted living to proceed as soon as possible.

IX. PROJECT MASTER SCHEDULE

The Master Schedule includes all aspects of the project from the election to the Environmental Impact Review process to getting approval from the Office of Statewide Health Policy and Development. It also includes the construction schedule and also provides the construction schedule for assisted living on the campus. Attachment E (page 60) is the proposed Master Schedule.

Under the proposed schedule, the hospital designs begin in November 1999 if the bond measure is approved by the voters. Occupancy into the new hospital would begin in the Summer of 2006 and the assisted living units would be ready in the Spring of 2009. It is anticipated that it will take approximately 7 years to replace Laguna Honda Hospital. The project's milestones are as follows:

- November 2, 1999 bond election for a new hospital and design begins,
- Spring 2001 EIR certified and clearing of valley buildings begins,
- Spring 2002 foundation and steel frame for new hospital begins,
- Spring 2003 exterior enclosure and interior system begin,
- Winter 2003 design of assisted living begins,
- Spring 2006 move into new hospital and begin renovation of old hospital and demolition of Clarendon Hall,
- Winter 2006 Clarendon site clear and start building assisted living,
- Spring 2008 move into renovation; start demolition of finger wards and
- Spring 2009 parking, road and landscaping complete and move into assisted living units.

X. FINANCIAL ASPECTS OF REPLACEMENT PROGRAM

The financial aspects of this replacement program are project costs, financing mechanisms, sources of repayment and facility operating costs.

A. Estimated Project Costs

Constructing the new hospital and allocating funding for assisted living will cost an estimated \$428.7 million. Table 9 provides the detailed information on the cost estimates:

TABLE 9
Estimated Project Costs by Program Component

<i>Program Component</i>	<i>Added Cost</i>	<i>Project Cost</i>
Base Program (1050 New Bed Facility and 150 Beds Retained at Clarendon Hall)		\$339,564,000
New 1200 Bed Skilled Nursing Facility	\$25,736,000	\$365,300,000
20% Private and 80% Semi-Private Rooms	\$27,271,000	\$392,571,000
Enhancements for Adult Day Health Care, Senior Nutrition Center and Animal Horticulture Therapy; development of Child Care for Employees, Aqua Therapy	\$14,319,000	\$406,890,000
Demolish Clarendon Hall	\$6,817,000	\$413,707,000
Partial Funding for Assisted Living – at least 140 units	\$15,000,000	\$428,707,000
<i>Total</i>		<i>\$428,707,000</i>

The \$15 million for assisted living represents the City and County's match to leverage additional federal funds to construct assisted living units. The current estimates are that at least 140 units or more could be developed with this funding coupled with a federal match.

The estimated total project cost is \$437,045,000 consisting of:

- Project costs = \$428,707,487
- Financing costs = \$ 8,337,513

B. Bond Financing Options

The Laguna Honda Hospital Replacement Planning Committee, with the pro bono assistance of Public Financial Management, Inc., Kitahata & Associates and Goldman, Sachs & Company, determined that general obligation bonds provide the lowest cost financing and the greatest assurance for completing the project. Two other types of debt instruments, lease revenue bonds and asset backed securities, were carefully analyzed as alternative funding mechanisms. Attachment F (page 61) provides the capital financing options for general obligation and lease revenue bonds.

1. Lease Revenue Bonds

Lease revenue bonds are not debt pursuant to Article XIII of the State Constitution and therefore are carefully structured around the underlying asset. As a result, lease revenue bonds are a significantly more expensive and less efficient mechanism for funding the Laguna Honda replacement project.

First, lease revenue bonds require that no lease payments (i.e., debt service) be paid until the financed asset is available for use and occupancy. Thus, no debt payments can be made during the construction period. However, at a minimum, investors must be paid interest on their investment during the construction period. The interest component is therefor borrowed as part of the financing (known as capitalized interest) which adds significantly to the cost of the borrowing. In the case of the Laguna Honda project, the construction period extends for a period of 10 years. It is not clear that a finance plan employing multiple series of lease revenue bonds, and the corresponding capitalized interest, is feasible nor is it clear that such a plan would comply with IRS expenditure regulations related to tax-exempt bonds.

Second, lease revenue bonds, like a rental lease, require a one year security deposit known as a debt service reserve fund. The debt service reserve fund must be capitalized in an amount equal to one year's debt service. This money is also borrowed as part of the financing which adds significantly to the borrowing amount and therefore the repayment amount. In the case of the Laguna Honda project, that amount would probably be \$45 - \$50 million in pure financing costs.

Third, lease revenue bonds carry greater repayment risk. Investors are investing in the viability of the financed structure (the hospital campus) and are dependent upon the general fund for repayment. If there is a shortfall in the general fund, investors could require the City to reduce services in order to make its debt payments. Furthermore, under State law, in the event of damage to the facility that would temporarily or permanently reduce the use and occupancy of the hospital, lease payments (i.e., debt service) could not be repaid. In order to compensate investors for this repayment risk, the interest rate of lease revenue bonds is significantly higher than that of general obligation bonds.

Finally, due to the magnitude of the replacement project, the amount of lease revenue bonds that would be required to completely finance the project is \$554.2 million. There is no assurance today that the municipal bond market would absorb that much debt for a single facility. While a significant amount of lease revenue bonds were issued to finance the construction of the Moscone Convention Center, they were issued over a period of 15 years and were issued on behalf of a project which brings significant revenues to the City. The Laguna Honda replacement project does not meet this criteria.

2. Asset Backed Securities

Asset backed securities are not a municipal debt product but rather are a corporate debt product. These types of securities are typically used to leverage credit card receivables and have even been used in Florida to leverage a sizable insurance settlement. Many Wall Street firms are promoting asset backed securities as a means for leveraging tobacco settlement moneys. They represent a viable debt tool for insulating the investor and the borrower from the risk that the moneys are not received either as scheduled or in the amount anticipated.

The market for tobacco-backed securities does not currently exist. However, while such a market will eventually be created as a means for municipalities to leverage this money, at this time, it is not known what additional "enhancements" will be required. The City of New York and Nassau County, New York are currently working on a means for using asset backed securities to leverage their settlement moneys and will likely be the test cases for this type of debt. As such, they will probably pay higher rates of interest to compensate investors for unknown or unquantified risks until the tobacco-backed marketplace matures.

Currently, tobacco-backed securities do not represent a viable financing mechanism for the Laguna Honda project for several reasons. First, the money San Francisco is scheduled to receive is due over time and would need to be leveraged today to fund the project. While San Francisco is scheduled to receive \$585 million from the tobacco settlement, that is not enough money to pay in full both the principal and interest on the amount of debt to completely fund the project. A companion debt instrument would be required.

Second, it is unclear that San Francisco will in fact receive every dollar of the \$585 million scheduled over the next 25 years. Receipt of this money is dependent upon the following national factors: (1) cigarette consumption in the U.S., which has steadily declined; (2) continued viability of the "big four" cigarette companies that bear the brunt of the settlement burden and whose credit ratings are significantly lower than San Francisco's; and (3) absence of future federal sanctions/taxes against the tobacco companies.

Third, under the Memorandum of Understanding between the State of California and the local jurisdictions, a considerable portion of San Francisco's share depends on its population relative to the population of the other 57 counties. During the life of the bonds there will be a least three census counts. If San Francisco's population declines relative to that of other counties, San Francisco will receive a proportionately smaller share of the settlement moneys.

Finally, it is not known today what credit enhancements the capital markets will require to invest in this type of debt, what interest rates may be required to attract such investors, or that sufficient investors exist to absorb all of the tobacco-backed debt that is intended to be issued by the municipal plaintiffs. Will the marketplace require a debt service reserve fund? Will the marketplace require debt service coverage? If so, what

percentage of the scheduled settlement payments can be leveraged? As a result of these and other issues, it is impossible to determine the appropriate par amount of any asset backed securities today and the par amount of the companion debt instrument to complete the replacement project.

3. General Obligation Bonds

General obligation bonds provide the least cost financing and the most efficiency for this project. First, general obligation bonds carry the lowest interest rates. Second, general obligation bonds do not require additional funding of debt service reserve funds or capitalized interest and thus reduce the overall borrowing amount. Third, general obligation bonds can be issued as the moneys are required and are not dependent on the status or timing of the underlying project. Tobacco settlement funds may be applied to pay a portion of the debt service on general obligation bonds or applied to finance construction costs on a pay as you go basis – thereby leveraging their receipt in a much more efficient manner. General obligation bonds therefore provide the best means of leveraging the tobacco settlement moneys since general obligation bonds result in the lowest amount of debt service and thus the greatest amount of recovery from tobacco receipts.

C. Source of Repayment

The source of repayment for general obligation bonds is ad valorem property taxes – they secure the investors risk of purchasing the bonds.

However, in addition to the property taxes, the Department believes that other sources of funds can be used to pay, on a reimbursement basis, a portion of the rebuilding costs. Specifically, it is being requested that tobacco settlement receipts and additional state and/or federal funds also be used to pay for a portion of the project costs or debt service. However, these funds alone will not cover the costs of replacing Laguna Honda. Therefore, some portion of the debt service will be borne by taxpayers.

It is recommended that all tobacco settlement funds received by the City and County of San Francisco should be dedicated for the construction of a new Laguna Honda. The tobacco settlement requires the nation's major tobacco companies to provide payments to states and to restrict their marketing activities. The payments are in perpetuity. The estimated payment to San Francisco from the tobacco settlement is \$585 million for the first 25 years. Tobacco settlement receipts are recommended to be used for debt service on construction, equipment and other related financing costs as the first and primary source to pay off capital costs of the project.

In California, there is a memorandum of understanding between the State and the counties to split the financial recovery from the tobacco settlement 50%/50%. The agreement was signed by the State Attorney General. There are a number of uncertainties surrounding the level of funds the City and County will ultimately receive. Specifically, a reduction in tobacco sales, changes in census and tobacco company bankruptcy will reduce the level of funding received. On the other side of the equation,

there is an inflation factor that must be added to account for the annual Consumer Price Index.

For this analysis, it is not assumed that the entire amount of the tobacco settlement would be applied to debt service, but discounted by various percentages to account for negative factors (such as a drop in County population relative to the State or decreases in national tobacco sales) that would affect the total amount received. Attachment G (page 62) provides detailed information on the following scenarios:

- receive 100% of tobacco money and apply \$485.9 million to debt service,
- receive 90% of tobacco money apply \$442.0 million to debt service,
- receive 75% of tobacco money apply \$376.9 million to debt service and
- receive 60% of tobacco money and apply \$313.3 million to debt service.

The entire principal and interest that will be paid on this project is anticipated at \$818.7 million using current interest rate assumptions. Application of tobacco settlement funds would reduce the remaining amount of the debt service which must be paid for by ad valorem taxes (i.e., property tax). With more tobacco receipts available to cover the debt service there is a reduction in the amount paid by property taxes. However, as can be seen from above, the tobacco settlement funds will not cover the entire principal and interest due and a portion of those costs will need to be covered with local support.

The tax effect of this bond issuance has been calculated for the following property values: (1) \$300,000 home, (2) \$400,000 home, (3) \$1,000,000 building and (4) \$5,000,000 building. This information is also shown on Attachment G. According to the Controller's Office, the median assessed value of homes in San Francisco is \$300,000. The estimated total paid in property taxes over the life of the bonds (26 years) would be \$4,173 for a home with an assessed value of \$300,000 if no tobacco receipts were applied to offset the debt service. Table 10 on the next page provides the application of the tobacco settlement based on a home with an assessed value of \$300,000 and assumes that 75% of the tobacco settlement money is actually received and that \$376.9 million is applied to debt service. As can be seen, application of tobacco settlement receipts would lower the impact to San Francisco homeowners.

TABLE 10
Application of Tobacco Settlement Receipts
(Receive 75% of Tobacco Receipts and Apply \$376.9 million to Debt Service)

Assessed Property Value	Net Debt Service	Tobacco Receipts Applied	Ad Valorem Tax	Tax Effect
\$300,000 Home	\$818,745,000	\$376,872,000	\$441,873,000	\$163.58 maximum annual impact; total paid over period is \$2,252
\$400,000 Home	\$818,745,000	\$376,872,000	\$441,873,000	\$218.11 maximum annual impact; total paid over period is \$3,003
\$1,000,000 Building	\$818,745,000	\$376,872,000	\$441,873,000	\$545.27 maximum annual impact; total paid over period is \$7,507
\$5,000,000 Building	\$818,745,000	\$376,872,000	\$441,873,000	\$2,726.37 maximum annual impact; total paid over period is \$37,536

The proposal is to have the tobacco funds (to the extent that they are received) pay for the interest in the beginning years of the project so that the property taxes would not be incurred until the project is completed. In this manner, the taxpayer would see a direct correlation between the increase in property taxes and a new skilled nursing facility.

In addition to the tobacco settlement funds, the Department of Public Health has been working with its legislative delegation in Sacramento and in Washington, D.C. to determine if there are State and/or federal funds available to pay for a portion of the replacement costs. On the federal level, the City and County has made a request to the Health Resources Services Agency (under the federal Department of Health and Human Services) for \$9 million. These funds would come from a recently created capital program within HRSA and would fund a portion of the first phase which involves destroying the central plant in the Clarendon Valley and developing a temporary structure during the construction period. If approved, these funds could potentially be received by the City and County in a lump-sum amount. This would reduce the amount of construction funds that the City and County would need to borrow by \$9 million.

On the state level, we are working closely with our delegation on a mechanism that will provide for additional reimbursement to Laguna Honda to cover the debt service. Due to State and federal appropriations and budgeting processes, the Department cannot indicate definitively that the City will or will not receive additional funds from these sources. The State budget process should be finalized in June 1999 to start the July 1, 1999 to June 30, 2000 fiscal year while the federal budget process should be finalized in September 1999 to start the federal fiscal year of October 1, 1999 to September 30, 2000. As a result, the Department could not factor in any potential funding from these sources into its financial analysis. However, if the funds are received, then they would be applied to reduce the debt service on the bonds and/or reduce the amount the City and County would need to borrow.

It is recommended that the bond measure include language that provides for the provision of allocated State and/or federal funds to pay for a portion of the costs once the funds have been identified and appropriated. After the application of tobacco money and any state/federal funding, local property taxes would be used to pay off the balance of the debt service for the replacement of Laguna Honda.

D. City and County of San Francisco's General Obligation Bond Capacity

The general obligation bond capacity for the City and County is calculated annually pursuant to limitations imposed by the City Charter. Section 9.104 of the Charter indicates that there "shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property located within the City and County." This 3% cap applies to principal only (i.e., does not include interest).

Attachment H (page 66) provides detailed information on the City's current general obligation bonds and capacity. For fiscal year 1998-99, the net valuation of the City and County is \$64 billion. This means that the City and County can have outstanding obligations totaling \$1.92 billion. The analysis assumes that the net valuation of the City and County will increase 3% each year. Last year the net valuation of the City and County increased 9%.

As the attachment indicates, at the end of the current fiscal year (June 30, 1999), the City will have utilized \$894.1 million of its bond capacity. That leaves \$1.026 billion in unused bond capacity (\$1.92 billion total capacity less \$894.1 million utilized capacity). The issuance of general obligation bonds for the Laguna Honda Hospital H shows, the issuance of general obligation bonds for this project in combination with existing bond projects would result in the City and County having remaining bond capacity of \$677.9 million in fiscal year 2000-01 and then increasing to \$1.2 billion in 2005-06.

E. Pro Forma Financial Operating Analysis

As part of the replacement planning process, a pro forma operating analysis was conducted. This report was prepared to assist with an evaluation of the revenues and expenses associated with Laguna Honda operations. Attachment I (page 67) is a copy of the complete pro forma analysis which evaluated the revenues and expenses associated with operations for the new facility.

The general methodology followed in the analysis was to evaluate historical financial trends and, as appropriate, the third-party payment and cost reimbursement relationships experienced by Laguna Honda. The pro-forma analysis was based on historical financial information for the fiscal periods ending June 30, 1998 and the six month period ending December 31, 1998, and budgeted financial information for the fiscal period ending June 30, 1999. Information was extracted from audited financial statements, internal financial statements, filed Medicare and Medi-Cal cost reports and various internally generated staffing, financial and statistical reports.

This pro forma analysis does not contain any information of the operations of assisted living on the campus. The analysis also does not include any debt service related to

This pro forma analysis does not contain any information of the operations of assisted living on the campus. The analysis also does not include any debt service related to any bond issue for the Laguna Honda campus. The analysis does incorporate the program recommendations. Table 11 provides the analysis.

Table 11
Pro-Forma Operating Analysis
(in thousands)

	PROJECTED FISCAL YEAR ENDING				
	06/30/08	06/30/09	06/30/10	06/30/11	06/30/12
Net Patient Revenue	\$100,912	\$104,514	\$104,740	\$104,875	\$105,011
Other Operating Revenue	<u>259</u>	<u>267</u>	<u>267</u>	<u>267</u>	<u>267</u>
Total Net Revenue	101,171	104,781	105,007	105,142	105,278
Operating Expenses:					
Salaries & Wages	86,289	88,691	90,465	92,274	94,119
Employee Benefits	21,768	22,374	22,822	23,278	23,744
Supplies	13,277	14,061	14,506	14,966	15,440
Services of Other Departments	5,325	5,480	5,639	5,803	5,971
Contracted Services	4,361	4,564	4,696	4,832	4,972
Provision for Bad Debt	732	771	786	802	818
Current Interest Expense	723	723	723	723	723
Start-up Costs	<u>943</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expense	131,753	135,942	138,914	141,955	145,064
Gain (Loss) From Operations	(30,582)	(31,160)	(33,907)	(36,812)	(39,786)
General Fund Contribution					
Current Contribution	19,745	19,745	19,745	19,745	19,745
Cost of Living Adjustments	<u>1,658</u>	<u>1,739</u>	<u>1,774</u>	<u>1,809</u>	<u>1,845</u>
Total Current Contribution and Cost of Living Adjustment	21,402	21,484	21,519	21,554	21,590
Increase (Decrease) in General Fund Contribution	\$9,180	\$9,676	\$12,388	\$15,258	\$18,195

As Table 11 indicates, Laguna Honda is forecasted to need additional General Fund contribution – ranging from \$9.2 million in 2008-09 to \$18.2 million in 2012-13. Laguna Honda's General Fund requirement increases principally because of the revenue and expenditure assumptions underlying the pro forma analysis.

Laguna Honda is reimbursed for skilled nursing care services by Medi-Cal based upon a fixed payment per patient day of \$214.90 which is the maximum amount allowed for Medi-Cal skilled nursing reimbursement. Medi-Cal is the primary payor of skilled nursing care. For conservative purposes it was assumed that this rate would not increase throughout the projection period. This is the most critical assumption in the

pro-forma operating analysis because approximately 96.6% of the total patient days at Laguna Honda are anticipated to be skilled nursing patient days that are subject to Medi-Cal reimbursement. In the last five years Laguna Honda has not received annual Medi-Cal rate increases for skilled nursing reimbursement – the State has frozen reimbursement rates. Since 1991-92 to the present, annual percentage increases for Medi-Cal distinct part skilled nursing rates averaged 0.33%. It should be noted that an annual Medi-Cal rate increase of 1% commencing in 1999 would increase the net patient revenue by approximately \$45 million for the forecasted period.

The assumption that Medi-Cal rates would not increase was coupled with the assumption that operating expenses would increase. Operating expenses include salaries, employee benefits, supplies, pharmaceuticals, contractual services and other expenses. Salaries were inflated at 2% based on various anticipated salary increases by employee groups. No changes in staffing were assumed for this pro forma analysis. Other operating expenses were assumed to increase at a 2.9% per annum inflation rate and a 7% increase was factored in for pharmaceuticals.

The upward trend in General Fund needs for Laguna Honda would occur even if the facility is not replaced. The lack of increased revenue and increasing expenditures will create a shortfall in Laguna Honda's operating budget.

The State is exploring several alternative reimbursement methodologies for paying both hospital-based and freestanding skilled nursing facilities. Some of the proposed alternatives include a prospective payment system, a negotiated rate formula, and several hybrid methodologies that incorporate various elements of other payment methods. Any changes in current reimbursement will significantly affect the results of the pro-forma due to several reasons. Since Laguna Honda is at the current per-diem ceiling, any changes to the reimbursement system will probably result in lower rates. On the other side, the California Hospital Association filed a lawsuit against the State Department of Health Services for arbitrarily freezing the nursing facility reimbursement rate. The trial ended in late April 1999 and the San Francisco Superior Court judge who presided over the case is considering his decision. The Court's decision should be issued within the next 60 days. The Department is hopeful that the outcome of the suit will result in a rate increase to meet cost of living adjustments.

However, it is also important to note that the federal Balanced Budget Act of 1997 allows the State to make changes to the reimbursement to skilled nursing hospitals by eliminating cost based reimbursement. If this were implemented in California, the LHH skilled nursing rate may be reduced from the current rate of \$214.90 to an unknown amount. Because of both of these factors: (1) the pending outcome of the trial in which the State may be required to increase the reimbursement and (2) the ability of the State to reduce the rate per the Balanced Budget Act, the future reimbursement from Medi-Cal is difficult to project. The Department has not received information from the State Department of Health Services regarding its position on skilled nursing facility rates for the future. As a result, the Department estimated no change to the reimbursement for the purposes of projecting its revenues and expenditures in the new facility.

Department's General Fund subsidy would be reduced or increased correspondingly with these revenue changes. Table 12 provides a summary of these revenue scenarios.

TABLE 12
Impact on City and County General Fund Contribution to
Laguna Honda Hospital Under Different Medi-Cal Rate Changes (Add'l Increments)

Potential Change to Medi-Cal rate	FY 2008	FY 2009	FY 2010	FY 2011	FY 2112
2% increase per year	\$14.5 M	\$17.0 M	\$19.1 M	\$21.2 M	\$23.3 M
5% decrease from current rate	(\$4.2 M)	(\$4.3 M)	(\$4.3 M)	(\$4.3 M)	(\$4.3 M)
10% decrease from current rate	(\$8.4M)	(\$8.6 M)	(\$8.6 M)	(\$8.6 M)	(\$8.6 M)

Attachment J (page 83) provides detailed information on the three revenue scenarios.

ATTACHMENT A
**LAGUNA HONDA HOSPITAL REPLACEMENT
PLANNING COMMITTEE AND SUB-COMMITTEE MEMBERSHIP**

Planning Committee

Roberta Achtenberg, Sr. Vice President for Public Policy, S.F. Chamber of Commerce

Joan Braconi, Service Employees International Union Local 250

Dale Butler, Service Employees International Union Local 790

Donna Calame, Executive Director, IHSS Public Authority

Jennie Chin-Hansen, Executive Director, On Lok Senior Health Services

Adele Corvin, Adult Day Health Network

Jack Davis, Representative, Laguna Honda First Committee

Larry Funk, Administrator, Laguna Honda Hospital

Tom Harlan, Chief Executive Officer, Chinese Hospital

Willard Harris, R.N., M.A., Consumer Advocate

Anne Hinton, Director of Case Management Services, Goldman Institute on Aging

David Ishida, Executive Director, Commission on the Aging

Mitchell Katz, M.D. (Committee Co-Chair), Director of Health, CCSF

Susan Leal, Treasurer, City and County of San Francisco

Charles Levinson, Resident, Laguna Honda Hospital/Clarendon Hall

Carolene Marks, Commission on the Status of Women

Peter Mezey, Chairman, S.F. Planning & Urban Research Association

Monique Moyer, Director of Public Finance, Mayor's Office of Public Finance

Robert Neil, President, Laguna Honda Hospital/Clarendon Hall Resident Council

Mark Primeau, Director of Public Works, City and County of San Francisco

Louise Renne, J.D. (Committee Chair), City Attorney, Office of the City Attorney

Roger Ridgway, Pastor, St. John's United Church of Christ

Maria Rivero, M.D., Medical Director, Laguna Honda Hospital

Marcia Rosen, Director, Mayor's Office of Housing

Karen Young-Simmons, Consumers in Action for Personal Assistance

Anthony Wagner, Executive Administrator, Community Health Network

Finance Sub-Committee

Jack Davis, Representative, Laguna Honda First Committee

Matthew Hymel, Director of Finance, Mayor's Office

Ken Jensen (Sub-Committee Chair), Chief Financial Officer, Community Health Network

Richard Locke, Hambrecht & Quist

David Madway, Redevelopment Agency

John Marshall, Service Employees International Union Local 250

Monique Moyer, Director of Public Finance, Mayor's Office of Public Finance

Morris Noble, Jr., Members, Laguna Honda Hospital Volunteers, Inc.

Norma Satten, Planning for Elders in the Central City

Michelle Sexton, Esq., Deputy City Attorney, Office of the City Attorney

John Shen, On Lok Senior Services

Monique Zmuda, Chief Financial Officer, Dept. of Public Health

Program Sub-Committee

Kathryn Borgenicht, M.D., Geriatrician

Joan Braconi, Service Employees International Union Local 250

Jean McClatchy Bricker, President, LHH Volunteers, Inc. Board

Luis Calderon, Chairman, Consumers in Action for Personal Assistance

Jennie Chin-Hansen, Exec. Director, On-Lok Senior Health Services

Ann Dukes, R.N., Laguna Honda Hospital (Local 790)

Mary Louise Fleming (Sub-Committee Chair), R.N., M.S.N., Community Health Network Associate Administrator, Long Term Care and Director of Nursing, Laguna Honda Hospital

Steven A. Gold, President, Goldman Institute on Aging

Willard Harris, R.N., M.A., Consumer Advocate

Paula Jesson, Esq., Deputy City Attorney, Office of the City Attorney

Jeanie Kayser-Jones, RN, Ph.D., Physiological Nursing Department, University of California at San Francisco

Jerry Levine, Jewish Home for the Aged

Anthony Nicco, Program Manager, Adult Services Program, San Francisco Department of Human Services

Joan Rademacher, Family member of Laguna Honda Hospital resident

Geraldine Rosen-Park, Family member of Laguna Honda Hospital resident

Technical Build Sub-Committee

Dale Butler, Service Employees International Union Local 790

George Fribance, Assoc. Admin. Operations, Laguna Honda Hospital

Larry Funk (Sub-Committee Chair), Administrator, Laguna Honda Hospital

June Grainger, Family member of Laguna Honda Hospital resident

Gerald Green, Director of Planning, Department of Planning

Tony Irons (Sub-Committee Co-Chair), Chief City & County Architect

Kathleen Kelly, Executive Director, Family Caregivers Alliance

Mark Primeau, Department of Public Works

Roger Ridgway, Pastor, St. John's United Church of Christ

Marilyn Thompson, Architect, Bureau of Architecture

J. Peter Winkelstein, S.F. Planning and Urban Research Assoc.

George Wong, Esq., Deputy City Attorney, Office of the City Attorney

HEALTH COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 16-99

**SUPPORTING REBUILDING LAGUNA HONDA HOSPITAL AND
PLACING A BOND MEASURE ON THE NOVEMBER 1999 BALLOT**

WHEREAS, Laguna Honda Hospital and Rehabilitation Facility provides skilled nursing care to 1,065 frail elderly and disabled adults and has traditionally served 1200 resident; and,

WHEREAS, Laguna Honda Hospital must be rebuilt to comply with federal licensing and reimbursement standards and to ensure that the facility meets seismic safety standards; and,

WHEREAS, the Health Care Financing Administration has required the Department to reduce census at Laguna Honda to enhance resident privacy, and if Laguna Honda is not rebuilt at federal standards, then the Health Care Financing Administration may seek further reductions in the Hospital's census or decertification of the facility; and,

WHEREAS, projections indicate that there will be increased demand for skilled nursing care in San Francisco by the year 2010 and beyond, which support the need to continue Laguna Honda Hospital as a vital component of the long-term care delivery system; and,

WHEREAS, the San Francisco Health Commission supported the creation of a Planning Committee to bring recommendations on how to rebuild Laguna Honda Hospital to the Health Commission, Board of Supervisors and the Mayor; and,

WHEREAS, the Laguna Honda Hospital Replacement Planning Committee was formed to make programmatic, technical and financial recommendations on the rebuilding of the Hospital and the use of the Campus, and,

WHEREAS, the Laguna Honda Hospital Replacement Planning Committee and its sub-committees were diverse and represented the perspective of consumers, providers, advocates, community-based organizations, labor, business and other interested parties; and,

WHEREAS, the Laguna Honda Hospital Replacement Planning Committee adopted the following recommendations: (1) rebuild Laguna Honda Hospital, (2) rebuild Laguna Honda on the existing Forest Hill site, (3) build a single skilled nursing building in Clarendon Valley, (4) place 1,200 skilled nursing facility beds in the new facility, (5) have a bed mix of 20% private and 80% semi-private rooms [this includes seven 4-bed rooms], (6) expand the existing Adult Day Health Center, senior nutrition, and animal/horticultural therapy program, and develop a child care center for employees, and aqua therapy for residents, (7) demolish Clarendon Hall and prepare the site for assisted living, and (8) place at least 140 assisted living units on the former site of Clarendon Hall; and,

HEALTH COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 16-99 (Cont'd.)

- WHEREAS, assisted living is being proposed on the Laguna Honda Campus to ensure that the Campus has a range of housing opportunities, and to address a deficit in the number of assisted living/supportive housing opportunities for the elderly and disabled in the City and County; and,
- WHEREAS, the project cost of replacing Laguna Honda Hospital and providing a \$15 million commitment for assisted living is \$437,045,000, which includes financing costs; and,
- WHEREAS, the recommendation of the Laguna Honda Hospital Replacement Planning Committee is that general obligation bond(s) and/or other evidence of indebtedness be used to finance this project; and,
- WHEREAS, while the source or repayment for general obligation bonds is ad valorem property taxes, the Departmental also believes that other sources of funds can be used to pay a portion of the rebuilding costs; and,
- WHEREAS, San Francisco expects to receive an estimated \$585 million in tobacco settlement funds over the next 25 years; and,
- WHEREAS, the Laguna Honda Hospital Replacement Planning Committee recommends using tobacco settlement funds for the replacement of Laguna Honda because it is consistent with using these funds for health-related purposes; and,
- WHEREAS, tobacco settlement receipts are recommended for debt service on construction, equipment and other related financing costs as the first and primary source to pay off capital costs of the project; and,
- WHEREAS, the Department is working with its legislative delegations to determine whether State and/or federal funds are available to pay for a portion of the replacement costs, and if funding is received, then it would be applied to reduce the debt service on the bonds; and,
- WHEREAS, the pro forma operating analysis indicates that the City and County General Fund subsidy for Laguna Honda will increase by \$9.1 million in the new hospital's first full year of operation, and by \$18 million by the fourth year of operation, based on the assumption that Medi-Cal reimbursement would remain stable and expenditures would increase; and,
- WHEREAS, increased General Fund contribution would be required for Laguna Honda whether or not the Hospital is rebuilt given Medi-Cal reimbursement trends; and,
- WHEREAS, the replacement of Laguna Honda Hospital is not in conflict with the goal of caring for individuals in the community, whenever it is appropriate to do so, because the Hospital is designed for elderly and disabled adults who cannot be cared for in either their homes and/or community-based settings; now, therefore, be it

HEALTH COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 16-99 (Cont'd.)

RESOLVED, that the San Francisco Health Commission supports the need to continue providing skilled nursing facility care to ensure that elderly and disabled adults, who cannot be cared for in the community, have access to vital rehabilitative and restorative services; and be it

FURTHER RESOLVED, that the San Francisco Health Commission supports the proposal of the Laguna Honda Hospital Replacement Planning Committee to build a 1,200 skilled nursing bed facility and at least 140 assisted living units on the existing Forest Hills site of Laguna Honda at a project cost of \$437,045,000; and, be it

FURTHER RESOLVED, that the San Francisco Health Commission supports the use of San Francisco's entire tobacco settlement funds to cover a portion of the debt service related to the replacement of Laguna Honda; and, be it

FURTHER RESOLVED, that the San Francisco Health Commission requests that the Department use its best efforts to secure the maximum reimbursement allowable from payers for the services of a distinct part skilled nursing facility; and, be it

FURTHER RESOLVED, that the San Francisco Health Commission encourages continued planning on the Citywide effort to expand the array of home and community-based services for elderly and disabled adults; and, be it

FURTHER RESOLVED, that the San Francisco Health Commission requests the Department of Public Health continue to evaluate the state-of-the-art of long-term care, (including a variety of options to care for the disabled and elderly in the community), propose well-balanced, integrated services for the coming decade and present regular updates on the progress of these efforts; and, be it

FURTHER RESOLVED, that the San Francisco Health Commission recommends to the Board of Supervisors and the Mayor to proceed with the placing of a general obligation bond(s) and/or other evidences of indebtedness on the November 1999 ballot.

I hereby certify that the foregoing resolution was adopted by the San Francisco Health Commission at its meeting of Tuesday, May 4, 1999.


Sandy Ouyé Mori
Executive Secretary to
the Health Commission

CALIFORNIA NURSING FACILITIES -- NUMBER OF FACILITIES AND UTILIZATION BY COUNTY

A County	B Total Population	C Total SNF Patient Days	D Total SNF Div. by 365	E Ratio of Beds to Residents	F Total SNF Lic. Beds	G Ratio of Beds to Residents	STATE, COUNTY, CITY OR HOSPITAL DISTRICT				
							No. of Facil.	No. of Hosp Facil.	Total SNF Pt. Days	Pt. Days Divided by 365	Total SNF Lic. Beds
Alameda	1,408,100	1,877,816	5,145	1: 274	5,917	1: 238	1	4	78,720	216	309
Alameda	1,200	67,830	186	1: 6	241	1: 5	-	-	-	-	-
Amador	1,200	399,327	1,094	1: 184	1,291	1: 156	-	-	-	-	-
Butte	201,600	38,350	105	1: 306	132	1: 291	-	-	-	-	-
Calaveras	38,350	45,703	125	1: 306	132	1: 291	-	-	-	-	-
Colusa	18,550	20,923	57	1: 324	105	1: 177	-	-	-	-	-
Contra Costa	900,700	965,105	2,644	1: 341	3,627	1: 248	-	1	1,012	3	-
Del Norte	28,900	31,078	85	1: 339	99	1: 292	-	-	-	-	-
El Dorado	147,600	106,341	291	1: 507	259	1: 570	-	-	-	-	-
El Dorado	786,800	1,091,267	2,990	1: 263	3,479	1: 226	-	4	23,979	66	97
Fresno	26,950	23,608	65	1: 417	76	1: 355	-	-	-	-	-
Glenn	127,700	160,350	439	1: 291	463	1: 276	-	1	3,002	8	8
Humboldt	127,700	81,852	224	1: 634	253	1: 562	-	-	-	-	-
Imperial	142,100	27,264	75	1: 248	78	1: 237	-	1	11,538	32	33
Inyo	18,500	638,373	1,749	1: 366	1,925	1: 332	-	3	51,904	142	321
Kern	639,800	97,902	268	1: 458	316	1: 389	-	1	60,513	166	-
Kings	122,800	90,590	248	1: 222	288	1: 191	-	-	-	-	-
Lake	55,100	42,869	117	1: 291	127	1: 269	-	-	-	-	-
Lassen	34,150	11,967,443	32,788	1: 293	40,368	1: 238	-	6	87,452	240	595
Los Angeles	9,603,300	123,228	338	1: 339	427	1: 268	1	1	5,804	16	19
Madera	114,300	345,460	946	1: 260	1,294	1: 190	-	-	-	-	-
Marin	245,900	4,487	12	1: 1,314	10	1: 1,615	-	1	4,487	12	10
Mariposa	16,150	114,203	313	1: 278	402	1: 216	-	1	2,760	8	-
Mendocino	86,900	174,642	478	1: 427	575	1: 355	-	1	-	-	-
Mendocino	204,400	24,321	67	1: 152	93	1: 109	-	2	24,321	67	93
Merced	10,150	0	0	1: 0	0	1: 0	-	-	-	-	-
Modoc	10,600	0	0	1: 0	0	1: 0	-	-	-	-	-
Mono	10,600	340,929	934	1: 413	1,183	1: 326	-	2	17,972	49	73
Monterey	386,200	300,439	823	1: 150	1,218	1: 101	-	2	106,504	292	491
Napa	123,300	145,849	400	1: 222	439	1: 202	-	2	12,884	35	30
Nevada	88,800	2,499,165	6,847	1: 398	8,592	1: 317	-	1	97,239	266	406
Orange	2,722,300	299,885	822	1: 265	968	1: 225	-	-	-	-	-
Placer	217,900	39,332	108	1: 191	104	1: 198	-	4	19,756	54	47
Plumas	20,600	1,354,542	3,711	1: 388	4,348	1: 331	-	1	13,880	38	143
Riverside	1,441,200	1,208,403	3,311	1: 350	3,846	1: 302	-	-	-	-	-
Sacramento	1,159,800	41,769	114	1: 407	122	1: 382	-	1	18,414	50	52
San Benito	46,600	1,494,220	4,094	1: 396	5,038	1: 322	1	3	88,080	241	335
San Bernardino	1,621,900	2,803,187	7,680	1: 364	9,873	1: 283	1	4	187,493	514	698
San Diego	2,794,800	1,194,006	3,271	1: 241	3,822	1: 207	-	2	464,700	1,273	1,429
San Francisco	789,600	852,727	2,336	1: 233	2,775	1: 196	-	-	-	-	-
San Joaquin	545,200	251,102	688	1: 347	867	1: 276	-	-	-	-	-
San Luis Obispo	239,000	749,021	2,052	1: 349	2,491	1: 287	-	1	43,720	120	124
San Mateo	715,400	0	0	1: 0	0	1: 0	-	-	-	-	-

Santa Barbara	405,500	23	441,287	1,209	1: 335	1,494	1: 271			1	39,709	109	110
Santa Clara	1,689,900	65	1,778,995	4,874	1: 347	5,893	1: 287			3	73,343	201	521
Santa Cruz	250,200	14	355,334	974	1: 257	1,002	1: 250					-	
Shasta	165,000	10	261,160	716	1: 231	838	1: 197			1	32,010	88	99
Sierra	3,360	1	12,016	33	1: 102	34	1: 99			1	12,016	33	34
Siskiyou	44,700	3	62,722	172	1: 260	205	1: 218					-	
Solano	383,600	13	251,759	690	1: 556	942	1: 407					-	
Sonoma	437,100	29	690,664	1,892	1: 231	2,306	1: 190			2	140,768	386	566
Sonoma	427,600	3	37,757	103	1: 4,134	136	1: 3,144			1	13,862	38	36
Sonoma	76,800	23	711,984	1,951	1: 39	1,927	1: 40			2	43,722	120	131
Stanislaus	55,400	4	116,860	320	1: 173	408	1: 136					-	
Sutter	13,250	4	57,627	158	1: 84	180	1: 74			1	21,323	58	67
Tehama	360,400	1	8,931	24	1: 14,729	26	1: 13,862			1	8,931	24	26
Tulare	52,800	18	543,797	1,490	1: 35	2,002	1: 26			5	91,592	251	589
Ventura	730,800	25	574,442	1,574	1: 464	1,891	1: 386					-	
Yolo	156,800	7	218,026	597	1: 263	798	1: 196			1		-	66
Yuba	61,400	2	33,420	92	1: 671	97	1: 633					-	
Total	33,217,810	1,533	38,253,339	104,804	1: 317	127,710	1: 260			6	1,903,410	5,215	7,615

Source: State of California Office of Statewide Health Planning and Development (1997 data)
California Department of Finance -- Demographic Research Unit (Spring 1998 Newsletter)
Based on 268 hospitals and 1,265 long-term care facilities

ATTACHMENT D
PROPOSED PROGRAMS AND SERVICES
LAGUNA HONDA CAMPUS – REPLACEMENT FACILITY

Clinical Services

	Currently on Campus	Place on New Campus	Comments
Acute Care	Yes	Yes	Up to a 30 bed unit
Alzheimer's	No	Yes	Develop inpatient capacity to provide expanded care to persons with Alzheimer's
Dental Clinic	Yes	Yes	
General Medical	Yes	Yes	
Nursing	Yes	Yes	
Respiratory Medicine	Yes	Yes	
Respite Care	No	Yes	
Physical Medicine/ Rehabilitation Therapy	Yes	Yes	• Develop expanded rehabilitation therapy for all residents more than one time per week • Develop an Independent Living/Transitional Skills Training program • Develop massage therapy especially for the mobility-impaired
Psychiatric Services	Yes	Yes	
Sub-specialty Care	Yes	Yes	
Substance Abuse Treatment	Yes	Yes	
Surgical Clinic	Yes	Yes	

Other Clinical Services

	Currently on Campus	Place on New Campus	Comments
EKG	Yes	Yes	
Food Service	Yes	Yes	
Laboratory/ Radiology	Yes	Yes	Expand services in response to acute needs of residents
Medical Records	Yes	Yes	
Morgue	Yes	Yes	
Pastoral Care	Yes	Yes	
Pharmacy	Yes	Yes	

Outpatient Services For Non-Laguna Honda Residents

	Currently on Campus	Place on New Campus	Comments
Adult Day Health (includes Alzheimer's)	Yes	Yes	Expand ADH and the Alzheimer's ADH to serve more people in community
Senior Nutrition	Yes	Yes	Expand program to serve more seniors in community

Outpatient Services and Programs For Laguna Honda Residents

	Currently on Campus	Place on New Campus	Comments
Activity Therapy	Yes	Yes	
Social Services	Yes	Yes	

Patient Activity Areas

	Currently on Campus	Place on New Campus	Comments
Activity Center(s)	Yes	Yes	Expand activities so that they meet resident needs and time activities such that more residents are able to attend
Assembly Hall Theatre	Yes	Yes	

Patient Activity Areas (continued)

Barber/Beauty Shop	Yes	Yes	Expand resident access to services and expand staff and/or volunteers for the program given the current limited staff and hours. Extend hours.
Library	Yes	Yes	
Music Activities	Yes	Yes	Expand the range of musical selections offered under the program to account for the younger resident population
Resident Store/ Convenience Center	Yes	Yes	Expand staff and/or volunteers for the program given the current limited hours. Extend hours.
Soda Fountain(s)	Yes	Yes	Expand staff and/or volunteers for the program given the current limited hours. Extend hours.
Volunteers, Inc. of Laguna Honda Hospital	Yes	Yes	Ensure adequate space for various activities: (1) holiday events, (2) entertainment, (3) transportation, etc.

Recreational Areas

	Currently on Campus	Place on New Campus	Comments
Animal Petting Therapy	Yes	Yes	Increase access to the program by expanding the hours, ensuring that it is more accessible and providing more staff
Aquatic Therapy	Yes	Yes	Expand program by developing a full aquatic program and creating a larger pool
General Recreation	Yes	Yes	Expand services offered and times of day recreation is available
Health Center	No	Yes	Create a health center for residents

Recreational Areas (continued)

Horticulture Therapy	Yes	Yes	Increase access to the program by expanding the hours and ensuring that it is more accessible. Allow for increased gardening and tree cultivation.
Outdoor Space	Yes	Yes	- Expand outdoor space/sports area for families visiting residents. - Have outdoor activities available for children visiting older residents. - Create outdoor space for resident dining

Specialized Units

	Currently on Campus	Place on New Campus	Comments
Acute General Medicine	Yes	Yes	
Acute Rehabilitation	Yes	Yes	
Alzheimer's & Related Diseases	Yes	Yes	
General Medicine Psychiatric	No	No	
Gero-psychiatric	No	Yes	Create unit in response to the more acute needs of the resident population
Head Trauma SNF	No	Yes	Recognize that Laguna Honda has this program. However, a specialized unit is recommended.
Hospice/AIDS SNF	Yes	Yes	
Rehabilitation SNF	Yes	Yes	
Sub-Acute SNF	No	Yes	Create unit in response to the more acute needs of the resident population
Ventilator SNF	No	Yes	Create unit in response to more chronic health care needs of resident population

Additional Components

	Currently on Campus	Place on New Campus	Comments
Child Care Center	No	Yes	Develop a child care center for Laguna Honda staff
Gymnasium for Staff	No	Yes	Develop a gymnasium for staff to: (1) provide for physical activity, (2) release stress and (3) address workers' compensation
Kitchen Facility	No	Yes	Create a kitchen facility to allow for: (1) resident/visitor cooking center, (2) catering and (3) teaching area for youth/senior population
Senior Center	Yes	Yes	Expand the senior center to provide additional services and to serve more seniors

Laguna Honda Hospital Current Services and Programs

Patient Services

Audiology	Pastoral Care
Dentistry	Pharmacy
Dietary	Radiology
EKG	Social Services
Laboratory (in conjunction with SFGH)	Volunteer Services
Medical Records	

Therapies

Physical Therapy	Speech Therapy
Occupational Therapy	Audiology
Respiratory Therapy	Activity Therapy

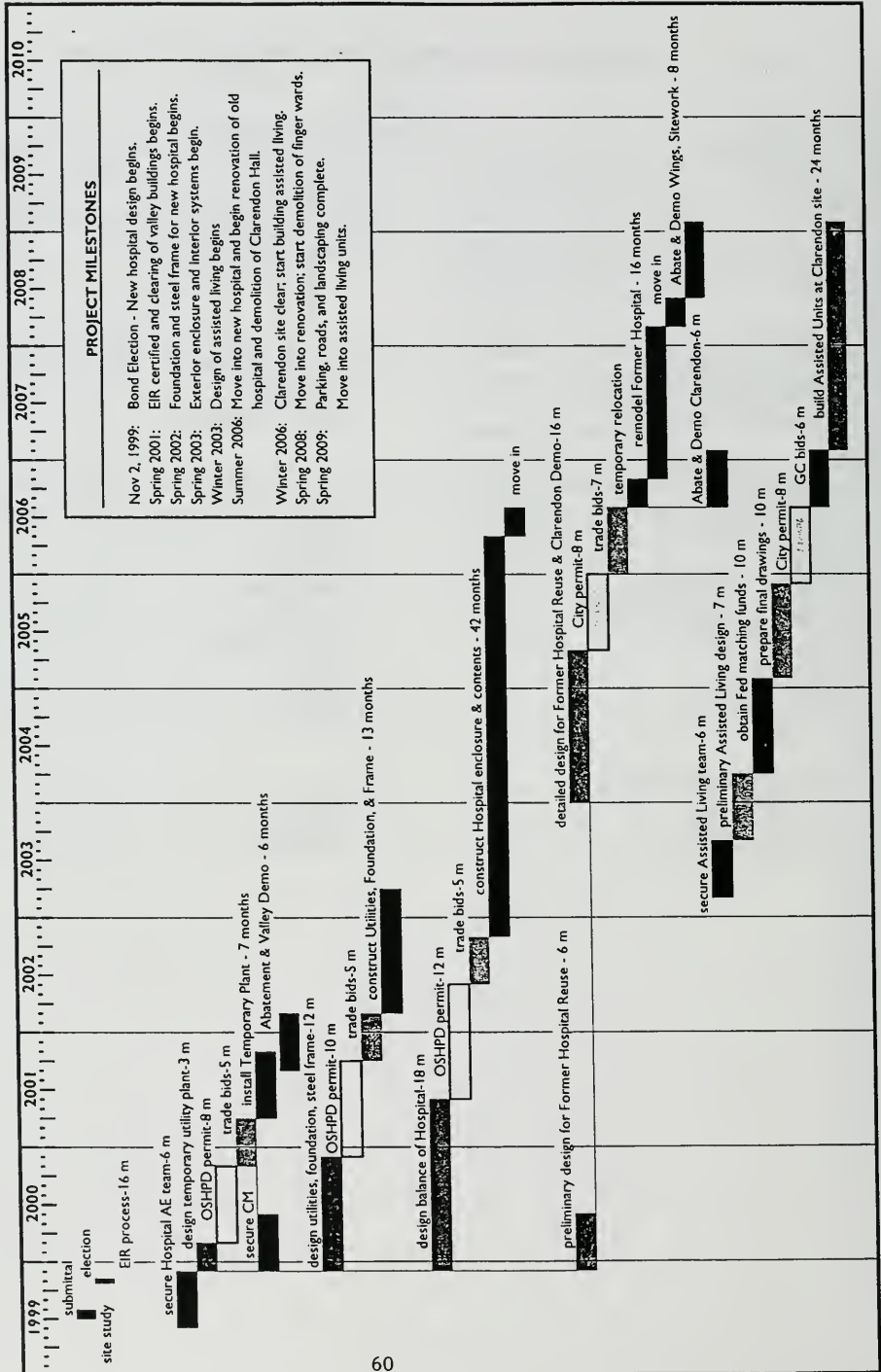
Specialty Clinics

Cardiology	Plastic Surgery
Dermatology	Podiatry
ENT	Psychiatry
Gastro-enterology	Psychology
Hematology/Oncology	Pulmonary
Nephrology	Rheumatology
Neurology	Surgery
Orthopedics	Urology
Physical Medicine	Vascular

Consultation Services

Gynecology	Podiatry
Ophthalmology	Radiology

Laguna Honda Hospital Replacement Master Schedule



City and County of San Francisco
Laguna Honda Hospital
Capital Financing Options

4/28/99

	GO Bonds (Fixed Rate) (20 Year)	Lease Revenue Bonds (30 Year)	Difference
Proceeds for Construction	\$ 428,707,487	\$ 428,707,487	\$ -
Plus Capitalized Interest	n/a	68,555,982	(68,555,982)
Plus Reserve Fund	n/a	45,178,213	(45,178,213)
Costs of Issuance	8,337,513	11,748,318	(3,410,805)
Par Amount of Bonds	\$ 437,045,000	\$ 554,190,000	\$ (117,145,000)

Application of Tobacco Settlement Receipts

Best Case = No Haircut

Debt Service on \$428.7MM Project

Year	Debt Service Due	Use of Tobacco Receipts (Best Case)	Ad Valorem Tax	Tax Effect on \$200,000 Home	Tax Effect on \$400,000 Home	Tax Effect on \$1,000,000 Building	Tax Effect on \$5,000,000 Building
1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-
3	3,120,000	3,120,000	-	-	-	-	-
4	8,656,000	8,656,000	-	-	-	-	-
5	22,143,000	22,143,000	-	-	-	-	-
6	22,143,000	22,143,000	-	-	-	-	-
7	22,143,000	22,143,000	-	-	-	-	-
8	22,143,000	22,143,000	-	-	-	-	-
9	23,163,000	23,163,000	-	-	-	-	-
10	26,222,000	26,222,000	-	-	-	-	-
11	46,172,000	44,809,000	1,363,000	6.95	9.26	23.16	115.78
12	46,175,000	18,850,000	27,325,000	139.27	185.69	464.23	2,321.17
13	46,171,000	19,305,000	26,866,000	136.93	182.57	456.44	2,282.18
14	46,171,000	19,387,000	26,784,000	136.51	182.02	455.04	2,275.21
15	46,166,000	19,470,000	26,696,000	136.06	181.42	453.55	2,267.74
16	46,170,000	19,553,000	26,617,000	135.66	180.88	452.21	2,261.03
17	46,168,000	19,636,000	26,532,000	135.23	180.30	450.76	2,253.81
18	46,171,000	19,719,000	26,452,000	134.82	179.76	449.40	2,247.01
19	46,171,000	19,803,000	26,368,000	134.39	179.19	447.98	2,239.88
20	46,168,000	19,887,000	26,281,000	133.95	178.60	446.50	2,232.49
21	46,166,000	19,972,000	26,194,000	133.51	178.01	445.02	2,225.10
22	46,173,000	20,056,000	26,117,000	133.11	177.48	443.71	2,218.55
23	46,171,000	22,570,000	23,601,000	120.29	160.39	400.97	2,004.83
24	38,337,000	22,666,000	15,671,000	79.87	106.50	266.24	1,331.20
25	6,094,000	6,094,000	-	-	-	-	-
26	6,091,000	6,091,000	-	-	-	-	-
27	6,092,000	6,092,000	-	-	-	-	-
28	6,090,000	6,090,000	-	-	-	-	-
29	6,095,000	6,095,000	-	-	-	-	-
30	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-
32	-	-	-	-	-	-	-
33	-	-	-	-	-	-	-
34	-	-	-	-	-	-	-
35	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-
	\$ 818,745,000	\$ 485,878,000	\$ 332,867,000	\$ 1,697	\$ 2,262	\$ 5,655	\$ 28,276

Moderate Case = 10% Haircut

Debt Service on \$428,7MM Project

Year	Debt Service Due	Use of Tobacco Receipts (Moderate Case)	Ad Valorem Tax	Tax Effect on \$300,000 Home	Tax Effect on \$400,000 Home	Tax Effect on \$1,000,000 Building	Tax Effect on \$5,000,000 Building
1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-
3	3,120,000	3,120,000	-	-	-	-	-
4	8,656,000	8,656,000	-	-	-	-	-
5	22,143,000	22,143,000	-	-	-	-	-
6	22,143,000	22,143,000	-	-	-	-	-
7	22,143,000	22,143,000	-	-	-	-	-
8	22,143,000	22,143,000	-	-	-	-	-
9	23,163,000	23,163,000	-	-	-	-	-
10	26,222,000	26,222,000	-	-	-	-	-
11	46,172,000	27,061,000	19,111,000	97.41	129.87	324.68	1,623.42
12	46,175,000	16,965,000	29,210,000	148.88	198.50	496.26	2,481.30
13	46,171,000	17,375,000	28,796,000	146.77	195.69	489.23	2,446.13
14	46,171,000	17,449,000	28,722,000	146.39	195.19	487.97	2,439.84
15	46,166,000	17,523,000	28,643,000	145.99	194.65	486.63	2,433.13
16	46,170,000	17,597,000	28,573,000	145.63	194.17	485.44	2,427.18
17	46,168,000	17,672,000	28,496,000	145.24	193.65	484.13	2,420.64
18	46,171,000	17,747,000	28,424,000	144.87	193.16	482.91	2,414.53
19	46,171,000	17,823,000	28,348,000	144.48	192.65	481.61	2,408.07
20	46,168,000	17,898,000	28,270,000	144.09	192.12	480.29	2,401.45
21	46,166,000	17,974,000	28,192,000	143.69	191.59	478.96	2,394.82
22	46,173,000	18,051,000	28,122,000	143.33	191.11	477.77	2,388.87
23	46,171,000	20,313,000	25,858,000	131.79	175.72	439.31	2,196.55
24	38,337,000	20,399,000	17,938,000	91.43	121.90	304.76	1,523.78
25	6,094,000	6,094,000	-	-	-	-	-
26	6,091,000	6,091,000	-	-	-	-	-
27	6,092,000	6,092,000	-	-	-	-	-
28	6,090,000	6,090,000	-	-	-	-	-
29	6,095,000	6,095,000	-	-	-	-	-
30	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-
32	-	-	-	-	-	-	-
33	-	-	-	-	-	-	-
34	-	-	-	-	-	-	-
35	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-
	\$ 818,745,000	\$ 442,042,000	\$ 376,703,000	\$ 1,920	\$ 2,560	\$ 6,400	\$ 32,000

Application of Tobacco Settlement Receipts
Very Conservative Case = 25% Haircut
Debt Service on \$428.7MM Project

Year	Debt Service Due	Use of Tobacco Receipts (Very Conservative Case)	Ad Valorem Tax	Tax Effect on \$300,000 Home	Tax Effect on \$400,000 Home	Tax Effect on \$1,000,000 Building	Tax Effect on \$5,000,000 Building
1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-
3	3,120,000	3,120,000	-	-	-	-	-
4	8,656,000	8,656,000	-	-	-	-	-
5	22,143,000	22,143,000	-	-	-	-	-
6	22,143,000	22,143,000	-	-	-	-	-
7	22,143,000	22,143,000	-	-	-	-	-
8	22,143,000	22,143,000	-	-	-	-	-
9	23,163,000	22,218,000	945,000	4.82	6.42	16.05	80.27
10	26,222,000	14,115,000	12,107,000	61.71	82.28	205.69	1,028.45
11	46,172,000	14,077,000	32,095,000	163.58	218.11	545.27	2,726.37
12	46,175,000	14,137,000	32,038,000	163.29	217.72	544.30	2,721.52
13	46,171,000	14,479,000	31,692,000	161.53	215.37	538.43	2,692.13
14	46,171,000	14,540,000	31,631,000	161.22	214.96	537.39	2,686.95
15	46,166,000	14,602,000	31,564,000	160.88	214.50	536.25	2,681.26
16	46,170,000	14,664,000	31,506,000	160.58	214.11	535.27	2,676.33
17	46,168,000	14,727,000	31,441,000	160.25	213.66	534.16	2,670.81
18	46,171,000	14,789,000	31,382,000	159.95	213.26	533.16	2,665.80
19	46,171,000	14,852,000	31,319,000	159.63	212.84	532.09	2,660.45
20	46,168,000	14,915,000	31,253,000	159.29	212.39	530.97	2,654.84
21	46,166,000	14,979,000	31,187,000	158.95	211.94	529.85	2,649.24
22	46,173,000	15,042,000	31,131,000	158.67	211.56	528.90	2,644.48
23	46,171,000	16,927,000	29,244,000	149.05	198.73	496.84	2,484.18
24	38,337,000	16,999,000	21,338,000	108.76	145.01	362.52	1,812.59
25	6,094,000	6,094,000	-	-	-	-	-
26	6,091,000	6,091,000	-	-	-	-	-
27	6,092,000	6,092,000	-	-	-	-	-
28	6,090,000	6,090,000	-	-	-	-	-
29	6,093,000	6,093,000	-	-	-	-	-
30	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-
32	-	-	-	-	-	-	-
33	-	-	-	-	-	-	-
34	-	-	-	-	-	-	-
35	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-

Extremely Conservative Case = 40% Haircut

Debt Service on \$428.7MM Project

Year	Debt Service Due	Use of Tobacco Receipts (Extremely Conservative Case)	Ad Valorem Tax	Tax Effect on		Tax Effect on		Tax Effect on	
				\$300,000 Home	\$	\$400,000 Home	\$	\$1,000,000 Building	\$5,000,000 Building
1	\$ -	\$ -	\$ -	-	\$ -	-	\$ -	-	-
2	-	-	-	-	-	-	-	-	-
3	3,120,000	3,120,000	-	-	-	-	-	-	-
4	8,656,000	8,656,000	-	-	-	-	-	-	-
5	22,143,000	22,143,000	-	-	-	-	-	-	-
6	22,143,000	22,143,000	-	-	-	-	-	-	-
7	22,143,000	21,223,000	920,000	4,69	-	6,25	-	15,63	78.15
8	22,143,000	14,319,000	7,824,000	39,88	53.17	132.92	132.92	664.62	664.62
9	23,163,000	12,119,000	11,044,000	56,29	75.05	187.63	187.63	938.15	938.15
10	26,222,000	11,311,000	14,911,000	76,00	101.33	253.33	253.33	1,266.64	1,266.64
11	46,172,000	11,262,000	34,910,000	177,93	237.24	593.10	593.10	2,963.49	2,963.49
12	46,175,000	11,310,000	34,865,000	177,70	236.93	592.33	592.33	2,961.67	2,961.67
13	46,171,000	11,583,000	34,588,000	176,29	235.05	587.63	587.63	2,938.14	2,938.14
14	46,171,000	11,632,000	34,539,000	176,04	234.72	586.80	586.80	2,933.98	2,933.98
15	46,166,000	11,682,000	34,484,000	175,76	234.34	585.86	585.86	2,929.30	2,929.30
16	46,170,000	11,731,000	34,439,000	175,53	234.04	585.10	585.10	2,925.48	2,925.48
17	46,168,000	11,781,000	34,387,000	175,26	233.69	584.21	584.21	2,921.06	2,921.06
18	46,171,000	11,831,000	34,340,000	175,02	233.37	583.41	583.41	2,917.07	2,917.07
19	46,171,000	11,882,000	34,289,000	174,76	233.02	582.55	582.55	2,912.74	2,912.74
20	46,168,000	11,932,000	34,236,000	174,49	232.66	581.65	581.65	2,908.24	2,908.24
21	46,166,000	11,983,000	34,183,000	174,22	232.30	580.75	580.75	2,903.74	2,903.74
22	46,173,000	12,034,000	34,139,000	174,00	232.00	580.00	580.00	2,900.00	2,900.00
23	46,171,000	13,542,000	32,629,000	166,30	221.74	554.35	554.35	2,771.73	2,771.73
24	38,337,000	13,599,000	24,738,000	126.08	168.11	420.28	420.28	2,101.41	2,101.41
25	6,094,000	6,094,000	-	-	-	-	-	-	-
26	6,091,000	6,091,000	-	-	-	-	-	-	-
27	6,092,000	6,092,000	-	-	-	-	-	-	-
28	6,090,000	6,090,000	-	-	-	-	-	-	-
29	6,095,000	6,095,000	-	-	-	-	-	-	-
30	-	-	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-	-	-
32	-	-	-	-	-	-	-	-	-
33	-	-	-	-	-	-	-	-	-
34	-	-	-	-	-	-	-	-	-
35	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-
37	\$ 818,745,000	\$ 313,280,000	\$ 505,465,000	\$ 2,576	\$ 3,435	\$ 8,588	\$ 42,938	\$ -	\$ -

City and County of San Francisco, Chartered General Obligation Bond Debt Capacity

3.00%

Property Tax Escalation Factor:

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Chartered General Obligation Bond Capacity								
Net Valuation	64,007,968,636	65,928,207,695	67,906,051,926	69,913,235,514	72,041,512,610	74,202,778,588	76,498,861,916	78,721,777,804
3% Cap on Outstanding Obligations	1,970,239,059	1,977,846,231	2,017,181,618	2,098,397,066	2,161,245,978	2,226,081,358	2,292,865,858	2,361,651,934
General Obligation Bonds Issued to Date								
Principal Amount of Bonds Outstanding at each 7/1	815,035,000	774,930,000	732,165,000	688,055,000	641,790,000	589,595,000	535,715,000	486,300,000
Principal Repaid during fiscal year	(40,105,000)	(42,765,000)	(44,110,000)	(46,765,000)	(52,195,000)	(53,880,000)	(49,415,000)	(51,470,000)
Actual Utilized Capacity at each 6/30	774,930,000	732,165,000	688,055,000	641,790,000	589,595,000	535,715,000	486,300,000	434,830,000
Remaining Capacity at each 6/30	1,145,309,059	1,245,681,231	1,349,126,618	1,456,307,066	1,571,650,978	1,690,168,358	1,806,562,858	1,926,821,834
General Obligation Bonds Authorized & Expected to be Issued								
Golden Gate Park Improvements (1992 vote)	-	17,060,000	-	16,540,000	16,000,000	15,415,000	14,845,000	14,230,000
Seismic Safety Loan Program (1992 vote)	-	-	16,280,000	15,750,000	15,200,000	14,625,000	14,020,000	13,390,000
Asian Art Museum Project (1994 vote)	-	16,730,000	29,215,000	28,385,000	27,450,000	26,475,000	25,455,000	24,390,000
Steinman Aquarium (1995 vote)	-	-	59,485,000	78,430,000	76,805,000	74,575,000	72,220,000	69,735,000
Affordable Housing (1996 vote)	20,000,000	40,000,000	131,925,000	129,420,000	124,665,000	119,725,000	114,555,000	109,135,000
City College & School District (1997 vote)	82,145,000	138,045,000	133,925,000	129,420,000	124,665,000	119,725,000	114,555,000	109,135,000
Zoo Improvements (1997 vote)	17,010,000	17,595,000	46,195,000	44,665,000	43,065,000	41,395,000	39,645,000	37,810,000
Net New Bonds Expected to be Outstanding	119,175,000	239,430,000	302,190,000	313,190,000	303,185,000	307,230,000	295,740,000	281,285,000
Utilized Capacity (Issued + Authorized) at each 6/30	894,105,000	991,595,000	990,245,000	954,980,000	892,780,000	842,945,000	782,110,000	718,115,000
Remaining Expected Capacity at each 6/30	1,026,134,059	986,251,231	1,046,936,618	1,143,317,066	1,268,465,978	1,383,138,358	1,510,825,858	1,643,536,834
General Obligation Bonds Pending Voter Approval								
Laguna Honda Hospital (1199 anticipated vote)	-	69,340,000	369,060,000	369,060,000	369,060,000	369,060,000	369,060,000	437,045,000
Net Expected to be Outstanding	894,105,000	1,060,935,000	1,359,205,000	1,324,040,000	1,268,840,000	1,212,005,000	1,151,100,000	1,155,160,000
Utilized Capacity (Issued/Authorized/Pending) at each 6/30	-	916,911,231	677,876,618	774,237,066	899,405,978	1,014,078,358	1,141,765,858	1,206,491,834
Remaining Expected Capacity at each 6/30	1,026,134,059	986,251,231	1,046,936,618	1,143,317,066	1,268,465,978	1,383,138,358	1,510,825,858	1,643,536,834

CRITICAL FACTORS:
 1) Assumes growth in Net Assessed Value over time is level at Property Tax Escalation Factor shown above. A 1% decrease in the growth rate results in a reduction of \$60.4 million in remaining capacity in FY 2001-02.
 2) Timing of principal repayment depends on interest rates. An increase in interest rates will result in slower repayment of debt and thus a lower amount of remaining debt capacity.
 3) Timing of new debt issuance is estimated. A faster issuance of new debt may result in less remaining debt capacity.
 4) Assumes \$15 million of \$315 million in Seismic Safety Bonds is issued in this time period. A greater issuance of Seismic Safety Bonds may result in less remaining debt capacity.

Prepared: 5/09/98

Laguna Honda Hospital
Pro-Forma Operating Analysis

Healthcare Financial Solutions
April 1999



April 19, 1999

Mr. Ken Jensen
Chief Financial Officer
Community Health Network of San Francisco
1001 Potrero Avenue
San Francisco, CA 94110

Dear Mr. Jensen:

In accordance with our engagement letter, we have prepared a pro-forma operating analysis pertaining to the Laguna Honda Hospital (LHH) Facilities Replacement Plan (the Project). This pro-forma operating analysis presents projected operating revenues and expenses for LHH for the five year period ending June 30, 2012.

The scope of our work, further described elsewhere in this report, included among other things, the following:

We analyzed the current and historical utilization patterns of LHH and refined them for the proposed bed configuration based on average occupancy estimates prepared by Healthcare Financial Solutions (HFS) and approved by LHH management. Financial and statistical data bases were analyzed relating to historical and budgeted trends of revenues, expenses, staffing patterns and third-party reimbursement patterns and modified as necessary based on the proposed bed configuration.

We did not complete a market or demand analysis for the Project. We did not ascertain the legal and regulatory requirements applicable to this Project, including zoning, other state and local government regulations, or permits and licenses. Further, no effort has been made to determine the possible effect on the proposed Project on present or future federal, state or local legislation or any environmental or ecological matters.

Our conclusions are based on information developed from research of LHH, knowledge of the industry, meetings with the Finance Sub-Committee, other building replacement committees, and representatives of the Community Health Network of San Francisco (CHN), LHH, and Kaplan McLaughlin Diaz (KMD), the Project architects, during which certain information was provided. The sources of information and the bases of the estimates and assumptions are stated in the body of this report.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

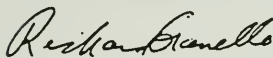
The accompanying pro-forma operating analysis is based on estimates and assumptions developed during the course of our engagement. However, some assumptions inevitably may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the period covered by the pro-forma operating analysis will vary from our estimates and the variations may be material.

Further, we have not been engaged to evaluate the effectiveness of management, and we are not responsible for management actions upon which actual results will depend.

This pro-forma operating analysis report was prepared solely for the use of CHN and LHH management and for presentation to appropriate city and state officials. Other than these defined uses, neither this report, its contents, nor any reference to our firm may be included, quoted or mentioned in any public document without our prior consent.

Very truly yours,

HEALTHCARE FINANCIAL SOLUTIONS

A handwritten signature in cursive script, reading "Richard A. Gianello".

Richard A. Gianello
President

LAGUNA HONDA HOSPITAL
PRO-FORMA OPERATING ANALYSIS

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BACKGROUND

Laguna Honda Hospital (LHH) is an acute care hospital with a distinct part skilled nursing facility (SNF) that is owned and operated by the City and County of San Francisco. LHH, as the largest provider of long-term care services in the City, plays a pivotal role in meeting the long-term health care needs of its residents. Over the last twelve years, a number of studies have been conducted to continually assess these needs as the senior population in San Francisco increases and to review the role of LHH in this process.

In November 1987, the Report of the Blue Ribbon Committee on Laguna Honda Hospital recommended that LHH initiate the preparation of a Comprehensive Facilities Master Plan with the objective of accommodating future needs. The Master Plan culminated from that recommendation and documents the long-range planning needs for Laguna Honda Hospital.

Based on the original Facilities Master Plan the City considered several alternatives in augmenting LHH's service capabilities. These alternatives included a spectrum of options ranging from re-use of the existing facility to complete replacement. The alternatives were evaluated on the basis of their ability to address the issues of project cost, operational efficiency, disruption to operations, constructibility, capability for expansion, traffic and circulation, and potential impacts on neighborhood and citywide amenities. Based on detailed review by the Hospital Task Force and the Community Advisory Group, Alternative C (Total Replacement) was originally selected as the preferred approach.

Although this Alternative has been modified during the last several years for seismic considerations and with HCFA's concern with the use of open wards and lack of storage and dedicated dining facilities for patients, the basic objective of replacing the entire facility has remained the same. The City has explored several different alternative sites to provide long term care services including the Bayview Hunters Point Shipyard, Treasure Island, Mission Bay and the Public Health Hospital. Since none of these sites was appropriate due to limited space and land costs, the existing site where LHH is currently located was chosen as the most appropriate and cost-effective alternative.

The Laguna Honda Hospital replacement planning committee which comprises several key sub-committees including planning, program, technical build and finance were identified as the group that would make the final recommendations on rebuilding LHH. The committee's recommendations will form the basis for a submission to the Board of Supervisors on the time-line and type of facility that is needed. The Finance Sub-Committee was charged with examining the costs and financing issues related to rebuilding the hospital. As part of this task, the Finance Sub-Committee retained Healthcare Financial Solutions (HFS) to assist with the financial projections and operating pro-forma associated with the new facility.

This pro-forma operating analysis report was prepared to assist LHH with an evaluation of the revenues and expenses associated with hospital operations under the current Facilities Replacement Plan. The general methodology followed in the analysis was to evaluate historical financial trends and, as appropriate, the third-party payment and cost reimbursement relationships experienced by LHH. The pro-forma analysis was based on historical financial information for the fiscal periods ending June 30, 1998 and the six month period ending December 31, 1998, and budgeted financial information for the fiscal period ending June 30, 1999. Information was extracted from audited financial statements, internal financial statements, filed Medicare and Medi-Cal cost reports and various internally generated LHH staffing, financial and statistical reports.

Additionally, interviews were conducted with representatives from the CHN, Finance Sub-Committee and senior management of LHH in order to determine the impact of the proposed bed configuration on departmental staffing, operating revenues and expenses. The specific bases used in projecting the various components of revenues and expenses are described later in the report.

PRO-FORMA OPERATING ANALYSIS

LAGUNA HONDA HOSPITAL
FACILITIES MASTER PLAN
PRO-FORMA OPERATING ANALYSIS
(in Thousands)

PROJECTED FYE:					
	06/30/08	06/30/09	06/30/10	06/30/11	06/30/12
Net Patient Revenue	\$100,912	\$104,514	\$104,740	\$104,875	\$105,011
Other Operating Revenue	<u>259</u>	<u>267</u>	<u>267</u>	<u>267</u>	<u>267</u>
Total Net Revenue	101,171	104,781	105,007	105,142	105,278
Operating Expenses:					
Salaries & Wages	86,289	88,691	90,465	92,274	94,119
Employee Benefits	21,768	22,374	22,822	23,278	23,744
Supplies	13,277	14,061	14,506	14,966	15,440
Services of Other Departments	5,325	5,480	5,639	5,803	5,971
Contracted Services	4,361	4,564	4,696	4,832	4,972
Provision for Bad Debt	732	771	786	802	818
Current Interest Expense	723	723	723	723	723
Start-up Costs	<u>943</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expense	131,753	135,942	138,914	141,955	145,064
Gain (Loss) From Operations	(30,582)	(31,160)	(33,907)	(36,812)	(39,786)
General Fund Contribution					
Current Contribution	19,745	19,745	19,745	19,745	19,745
Cost of Living Adjustments	<u>1,658</u>	<u>1,739</u>	<u>1,774</u>	<u>1,809</u>	<u>1,845</u>
Total Current Contribution and Cost of Living Adjustment	21,402	21,484	21,519	21,554	21,590
Increase (Decrease) in General Fund Contribution	\$9,180	\$9,676	\$12,388	\$15,258	\$18,195

Note: The comments and assumptions contained in this study are an integral part of this projected schedule.

PATIENT UTILIZATION

Routine Utilization

Under the facility plan, the bed capacity at LHH will increase to 1,200 beds. The program allocates 1,150 of the 1,200 beds to general skilled nursing units. The remaining 50 beds are assigned to acute care, rehabilitation, and sub-acute care units. The proposed bed configuration at Laguna Honda Hospital is presented in the following table.

TABLE I
LAGUNA HONDA HOSPITAL
NURSING UNIT BED CONFIGURATION

	PROPOSED BEDS
Total Skilled Nursing Beds	1,150
Total Sub-Acute Beds	30
Total Acute Beds	10
Total Rehab Beds	10
TOTAL BEDS	1,200

All specialty units are included in the skilled nursing bed configuration for the purposes of the pro-forma operating analysis. Financial and statistical data was projected for the fiscal years ending June 30, 2008 through June 30, 2012.

Routine occupancy rates were projected by LHH management in conjunction with HFS based on the nursing unit bed configuration and were used as the basis for the patient day projection. We did not complete a market or demand utilization analysis for the utilization projection. Exhibit I at the end of this report presents patient days as projected.

Although the Facilities Replacement Plan includes provisions for a 50 unit, 100 bed residential care facility (RCF) to be constructed adjacent to the hospital, this program was not incorporated into the pro-forma operating analysis.

Ancillary Utilization

Ancillary utilization was projected based on historical fiscal year ending June 30, 1998 and six months ending December 31, 1998 relationships with routine utilization. These relationships were assumed to be constant for the forecast. The ancillary utilization projections used for projecting revenues and expenses in the pro-forma operating analysis are presented in Exhibit I at the end of this report.

Outpatient Utilization

Outpatient utilization was projected based on historical fiscal year ending June 30, 1998 and six months ending December 31, 1998 relationships with routine utilization. These relationships were assumed to be constant for the recast. The outpatient utilization includes the services of physicians and the adult day care.

NET PATIENT SERVICE REVENUE

Net patient service revenue consists of gross routine and ancillary patient service charges reduced by contractual allowances that result from participation in various third-party payment programs at reduced payment rates. Table II reflects the projected gross patient revenue, contractual allowances and net patient service revenue for LHH during the forecasted period.

TABLE II
LAGUNA HONDA HOSPITAL
PROJECTED NET PATIENT SERVICE REVENUE

	2008	2009	2010	2011	2012
Total Gross Patient Revenue	\$164,576,714	\$173,336,232	\$176,738,025	\$180,207,205	\$183,745,113
Deductions From Revenue	<u>(63,664,469)</u>	<u>(68,822,068)</u>	<u>(71,998,021)</u>	<u>(75,332,334)</u>	<u>(78,734,082)</u>
Total Net Patient Service Revenue	\$100,912,245	\$104,514,164	\$104,740,004	\$104,874,871	\$105,011,031

Routine Service Revenue

LHH's charges for nursing, dietary, and routine care are included in the daily room rates. Revenue from routine services is estimated by multiplying the anticipated average daily room charge for each nursing service area by the projected number of patient days for each year. An overall general inflation factor of 2.0 percent was assumed throughout the pro-forma operating analysis.

Room charges were estimated based on the actual average room rates in place as of December 31, 1998. Table III reflects the anticipated routine charges by service area for LHH.

TABLE III
LAGUNA HONDA HOSPITAL
PROJECTED ROUTINE CHARGES

	2008	2009	2010	2011	2012
Skilled Nursing Services	\$141,584,528	\$149,252,203	\$152,237,247	\$155,281,992	\$158,387,632
Sub-Acute Services	6,223,110	6,493,121	6,558,052	6,623,633	6,689,869
Acute Services	641,544	676,288	689,813	703,610	717,682
Rehab Services	<u>789,802</u>	<u>805,598</u>	<u>821,710</u>	<u>838,144</u>	<u>854,907</u>
Total Routine Charges	\$149,238,984	\$157,227,210	\$160,306,823	\$163,447,379	\$166,650,090

Ancillary Service Revenue

The major components of the ancillary service revenues at LHH are generated in clinical laboratory, pharmacy, central supply, radiology, internal feeding, physical therapy, occupational therapy, respiratory therapy and speech therapy. Ancillary charges are projected based on actual revenues per ancillary statistic for the six months ending December 31, 1998. An ancillary rate increase of 2.00 percent per annum was assumed for the pro-forma operating analysis.

Outpatient Service Revenue

The major components of the outpatient service revenues at LHH are generated for physician services and the adult day care. Outpatient charges are projected based on actual revenues per statistic for the six months ending December 31, 1998. Physician services were based on total patient days and the adult day care was correlated to patient visits. An outpatient rate increase of 2.00 percent per annum was assumed for the pro-forma operating analysis.

Contractual Allowances, Free Services and Other Allowances

Deductions from revenue include contractual allowances, free services and other allowances which result from LHH's participation in various cost reimbursement programs, medical services provided at reduced or no charge, and estimates of uncollectible balances in accounts receivable. The primary component of these deductions from revenue is the contractual allowance which results from the participation by LHH in various programs with third-party payors, primarily Medicare and Medi-Cal. The contractual allowance represents the difference between full charges for services to covered beneficiaries and the actual payments received from the third-parties.

Medicare and Medi-Cal reimbursement regulations have frequently changed in the past depending on State and Federal funding priorities. There is every indication that reimbursement regulations will continue to be modified from time to time in the future. The estimated contractual allowance section of the pro-forma operating analysis was computed based on current interpretations of the Medicare and Medi-Cal regulations. Although we have factored in changes resulting from the Balanced Budget Act of 1997 (BBA), it is likely that these regulations will continually change in the future and any changes could have a material impact on the results projected in the pro-forma operating analysis.

The third-party revenue relationships in Table IV were utilized in projecting the contractual allowances and represent the percentage of gross patient revenue to be derived from each payor source. These percentages were based on gross charges by payor for the six months ending December 31, 1998 as reported in LHH's internal records.

TABLE IV
LAGUNA HONDA HOSPITAL
PROJECTED PATIENT REVENUE PAYOR MIX

Medicare	2.1%
Medi-Cal	96.2%
Private Pay and Other	1.7%
TOTAL	100.0%

Medicare Contractual Allowance

LHH historically was reimbursed for skilled nursing care services by Medicare at the lower of the SNF per diem charges or an allowable cost limit that includes total operating expenses and an allocation of fixed charges. Medicare routine and ancillary net revenues are forecasted based on recently revised reimbursement rates and methodologies as mandated by the Balanced Budget Act of 1997. According to this legislation, nursing facilities will be reimbursed on a prospective payment system (PPS) for all reporting periods ending on or after July 1, 1998. PPS is an acuity-based payment methodology which reimburses nursing services at a flat rate for a given acuity level. The acuity level is determined by a newly developed resource utilization grouping (RUG) called RUG III. This grouping schedule contains forty-four (44) different acuity levels based on activities of daily living (ADL), rehabilitation utilization, and other specific care needs. Under PPS, Medicare payments for both routine and ancillary services will be covered under a single federal PPS rate determined by the RUG grouping. Each of the forty-four (44) rates are broken down into two separate components; a labor component and a non-labor component. Adjustments for geographic location are computed by applying a wage index factor to the labor component and adding it to the non-labor component to compute an indexed rate specific for a given region. By the time the project starts, the skilled nursing services will be reimbursed under a fully implemented PPS rate. In order to forecast a PPS rate for LHH, an extensive study of MDS data was reviewed to determine an average PPS rate. Based on the study, a \$221.28 per diem was calculated from MDS data for six months ending December 31, 1998. This all inclusive rate for routine and ancillary services and capital was increased at 1 percent per year to account for inflation.

The Medicare reimbursement estimates for acute care services were based on regulations established by the Social Security Act Amendments of 1983. It was assumed that LHH would receive DRG payments consistent with the National Adjusted DRG rate as determined by the fiscal intermediary. It was assumed that this rate would also increase at 1.0 percent per annum. It was further assumed that the projected case mix index would remain consistent with historical experience at LHH.

Although the Balanced Budget Act made several substantive changes to the way Medicare reimburses hospitals on an inpatient basis, these changes are not expected to have a material impact on LHH. Some of the changes include the post acute transfer rule which limits hospitals on transferring acute patients to their DP/SNF units. Another change is a reduction in capital from DRG amounts and the re-basing of the DRG payment amount. Because LHH has a minimal amount of Medicare inpatient days (approximately 250 days compared to 203,000 total patient days for six months ending December 31, 1998), these changes are not considered material for purposes of this projection.

Payment for services provided under Medicare Part B are currently made on the basis of the lesser of costs or reasonable charges. HCFA has stated that it is the intention of Congress to include Medicare Part B payments under the prospective payment system. Although outpatient PPS will be implemented in 2001, it is not expected to have a material impact on LHH. As a result and for purposes of this pro-forma, we have projected Medicare Part B payments to similar reimbursement levels experienced in the past.

Rehabilitative care services are reimbursed by Medicare under certain provisions of the Tax Equity and Reform Act of 1982 (TEFRA). LHH is paid an all inclusive rate per discharge that is equivalent to an estimate of actual cost per discharge. The cost per discharge was computed for a base period cost report and is adjusted each year for anticipated inflation. The rate used for the operating pro-forma was drawn from the filed cost report for the fiscal year ending June 30, 1998 and is assumed to increase a rate of 1.0 percent per annum for inflation. Although the Balance Budget Act did impose national limits for acute rehabilitation providers, this is not expected to have a material impact on LHH.

Medi-Cal Contractual Allowance

LHH is reimbursed for skilled nursing care services by Medi-Cal based upon a fixed payment per patient day of \$214.90 which is the maximum amount allowed for Medi-Cal skilled nursing reimbursement. For conservative purposes it was assumed that this rate would not increase throughout the projection period. This is the most critical assumption in the pro-forma operating analysis due to the fact that approximately 96.6 percent of the total patient days at LHH are anticipated to be skilled nursing patient days. In the last five years LHH has not received annual Medi-Cal rate increases for skilled nursing reimbursement since LHH is at the current ceiling. Table V indicates the changes in the per-diem rate over the last eight years. An analysis of the annual percentage increase for Medi-Cal distinct part skilled nursing per diem rates indicated an average annual increase of approximately .33 percent. The sensitivity of this assumption is illustrated by the fact that an annual Medi-Cal rate increase of 1 percent, commencing in 1999, would increase the net patient revenue by approximately \$45 million for the forecasted period.

TABLE V
LAGUNA HONDA HOSPITAL
MEDI-CAL DISTINCT PART SNF PER DIEM LIMITS

Year	Rate	% Change
1991-92	\$209.35	
1992-93	209.65	.14%
1993-94	209.97	.15%
1994-95	214.90	2.35%
1995-96	214.90	0%
1996-97	214.90	0%
1998-99	214.90	0%

The majority of Medi-Cal patients at LHH are also covered under Medicare Part B for ancillary services, so it was assumed for the purposes of the pro-forma operating analysis that there would be additional payments from Medi-Cal for these ancillary services. This revenue source was forecast based on actual results from the six months ending December 31, 1998.

It was assumed that the 30 bed sub-acute program would have 15 beds dedicated to ventilator care and the remaining 15 beds allocated for non-ventilator care. Based the historical payor mix, it was assumed that all the beds would be dedicated to Medi-Cal patients. Sub-acute care in California is reimbursed on a cost-basis with specific cost limits for the ventilator and non-ventilator care. We assumed that LHH would be at cost limit based upon serving a patient base with high acuity needs. The current per-diem reimbursement of \$509.13 for ventilator care and \$484.41 for non-ventilator care were increased on a historical inflation rate of 2.5 percent.

¹LHH is reimbursed for acute care and rehabilitation services by Medi-Cal through a contract with San Francisco General Hospital. Under this contract, LHH is currently paid an all inclusive rate of \$800.00 per patient day. This rate includes

reimbursement for both routine and ancillary services. For the purposes of the operating pro-forma, it was assumed that this rate would increase by 1 percent per year.

Other Contractual Allowance

A small percentage of patient charges are expected to be funded from private sources or insurance programs. Other contractual allowances were calculated based on gross patient revenue based on actual results for the six months ending December 31, 1998.

Future Changes to Medi-Cal Reimbursement

It should be noted that the state is exploring several alternative reimbursement methodologies for paying both hospital-based and free-standing skilled nursing facilities. Some of the proposed alternatives include a PPS system, a negotiated rate formula, and several hybrid methodologies that incorporate various elements of other payment methods. Any changes in current reimbursement will significantly affect the results of the pro-forma due to several reasons. Since LHH is at the current per-diem ceiling, any changes to the reimbursement system will probably result in lower rates for LHH. Additionally, since LHH has approximately 400,000 Medi-Cal skilled nursing patient days, changes in reimbursement will adversely affect the financial performance of the facility.

OTHER OPERATING REVENUE

The net revenue derived from cafeteria sales, gifts and other non-patient income is included in the operating pro-forma as other operating revenue. The forecasted revenues are based upon the actual historical experience at LHH for the six months ending December 31, 1998 and were assumed to increase with patient utilization.

TOTAL OPERATING REVENUE

Total operating revenue is the sum of net patient service revenue and other operating revenue.

OPERATING EXPENSES

Operating expenses were projected based on LHH's approved budget for the fiscal year ending June 30, 1999 and the actual experience at LHH for the six months ending December 31, 1998. The specific bases for projecting the various components of operating expenses are described in the following paragraphs.

Staffing Requirements

Full-time equivalents (FTES) by job class within each department from actual operating statistics for fiscal year ending June 30, 1999 were used as the basis for the FTE projections. Interviews were conducted with CHN and LHH senior management in order to determine the appropriate staffing levels for the new configuration. The staffing projections were compared to actual and budgeted FTEs so that changes to staffing could be compared to historical trends. Staffing projections were also compared for reasonableness with the staffing levels of other hospital-based skilled nursing facilities and modified accordingly to patient acuity and current level of services provided. In cases where management or external regulatory agencies expected LHH to make operational changes, staffing projections were modified accordingly to reflect these proposed changes. As part of this engagement, a separate staffing analysis was completed by HFS to coincide with the proposed bed configuration. It was determined that in addition to the current staffing levels FTEs would be increased by 19 to accommodate for program changes and skill mix requirements.

Salaries, Wages and Employee Benefits

The fiscal year 1999 budgeted salary per FTE by department was evaluated for reasonableness and used as the basis for the pro-forma operating analysis. Salaries for new positions that were not included in the budget were provided by LHH management or computed as the mid-point of the salary range for that position. Employee groups of job classes were established based on the current labor bargaining agreements in place at LHH. Salaries were inflated at 2 percent based on various anticipated salary increases by employee group that were derived from historical averages of benchmark positions and an evaluation of expected future circumstances. This information was provided by the City of San Francisco Civil Service Commission.

Table VI reflects the anticipated FTE level, total salaries and benefits, average salary and benefit per FTE, and FTE per occupied bed for the projection period.

TABLE VI
LAGUNA HONDA HOSPITAL
STAFFING RATIOS AND WAGES

	1999 (Note 1)	2008 (Note 2)	2009	2010	2011	2012
Full-Time Equivalents	1,538	1,545	1,557	1,557	1,557	1,557
Salaries (in Thousands)	100,775	108,057	111,065	113,286	115,552	117,863
Salary Per FTE	65,523	69,940	71,333	72,759	74,215	75,699
Average Daily Census	1,065	1,113	1,171	1,171	1,171	1,171
FTE Per Occupied Bed	1.44	1.39	1.33	1.33	1.33	1.33

Note 1: Based on LHH Projected Statement of Revenue and Expenses for Year Ending June 30, 1999.

Note 2: Based on assumption that during the six month absorption period that as patient days increase staffing will also increase.

Employee benefits were calculated based upon actual experience for the six months ending December 31, 1998 and were computed at 25.2 percent of salary and wage expense.

Other Operating Expenses

Other operating expenses include supplies, services of other departments, contracted services, the provision for bad debts, current interest expense and start-up costs. The actual six months ending December 31, 1998 was used as the basis for the other operating expense portion of the operating pro-forma analysis. Fixed and variable expense relationships were adjusted for utilization and were derived from the actual results for the same period. These relationships were used to adjust supplies, professional fees and purchased services expense to reflect changes in patient utilization volume and square footage where appropriate. Other operating expenses were assumed to increase at a 2.9 percent per annum inflation rate and seven percent for pharmaceuticals based on a forecast of inflation rates by "Rate Control," a healthcare economic forecasting service. The provision for bad debt was calculated as a percentage of the net patient revenue based upon actual experience for the six-months ending December 31, 1998. The start-up costs are the expenses associated with training employees for the new facility and equipment systems as required by regulatory

agencies and was based upon the actual costs incurred at a hospital in Santa Clara County.

GAIN (LOSS) FROM OPERATIONS

Gain or Loss from operations is the difference between total net revenue and total operational expenses.

NONOPERATING REVENUE AND EXPENSES (not included as part of the pro-forma)

The State of California provides funds to assist local municipalities and county health departments. This State funding was not included in the pro-forma operating analysis. Additionally, there is anticipation that the County may receive some tobacco tax revenue in the future. This revenue source was not forecast in this information of the pro-forma operating analysis.

GENERAL FUND CONTRIBUTION

The City of San Francisco provides sufficient cash annually to fund the operating deficit at LHH as determined by the City budgeting procedures. The City subsidy was calculated as total net revenue plus nonoperating revenue minus total operating expense. For the purposes of this report, the General Fund Contribution was separated into two categories including the Current General Fund Contribution and the Cost of Living Adjustments for LHH employees. These two sources were then subtracted from the Gain or Loss from Operations to forecast the incremental General Fund Contribution that was required for the Project.

INCREASE (DECREASE) IN GENERAL FUND CONTRIBUTION

This category forecasts the incremental increase or decrease in General Fund Contributions related to the Project. As forecasted, there are additional increases in the funding ranging from \$9.2 million in Fiscal Year 2008 to \$18.2 million in Fiscal Year 2012.

DEPRECIATION EXPENSE

Depreciation expense was calculated on the building, fixed equipment and movable equipment. Building and fixed equipment depreciation was calculated on a Project costs of \$423,707,000 and expensed on a weighted straight line basis over 30 years which assumed buildings are depreciated over 40 years and fixed equipment over 20 years. The depreciation related to the new building and associated fixed equipment was estimated based on the total project cost as provided by KMD. The estimate of total cost for movable equipment was provided by a healthcare appraisal firm and provided to Healthcare Financial Solutions. The cost estimate for moveable equipment was forecast at \$7,500 per bed based on industry averages. Movable equipment was depreciated over an average life of 10 years. The following table reflects the estimated costs for the various components of the project that were used in the depreciation expense calculation.

TABLE VII
LAGUNA HONDA HOSPITAL
ESTIMATED DEPRECIATION EXPENDITURES

Construction and Fixed Equipment	\$14,123,567
Major Movable Equipment	900,000
Existing Depreciation and Amortization Expense	1,637,223
Total Depreciation Expense ⁸⁰	\$16,660,790

EXHIBIT I
ROUTINE AND ANCILLARY UTILIZATION BY DEPARTMENT

EXHIBIT I
LAGUNA HONDA HOSPITAL
FACILITIES REPLACEMENT PLAN
ROUTINE AND ANCILLARY UTILIZATION

		PROJECTED FYE:				
DEPARTMENT NAME	STATISTIC	06/30/08	06/30/09	06/30/10	06/30/11	06/30/12
ROUTINE UTILIZATION:						
SKILLED NURSING	SNF PD	402,088	415,553	415,553	415,553	415,553
SUB-ACUTE	SUB-ACUTE	10,282	10,662	10,662	10,662	10,662
ACUTE - MEDICAL	ACUTE PD	626	647	647	647	647
REHAB - ACUTE	REHAB PD	<u>672</u>	<u>672</u>	<u>672</u>	<u>672</u>	<u>672</u>
SUB-TOTAL ROUTINE		413,667	427,492	427,492	427,492	427,492
ANCILLARY UTILIZATION:						
LABORATORY	TESTS	35,953	37,155	37,155	37,155	37,155
ELECTROCARDIOLOGY	PROCEDURES	622	643	643	643	643
RADIOLOGY	PROCEDURES	3,006	3,106	3,106	3,106	3,106
RESPIRATORY THERAPY	TREATMENTS	16,273	16,817	16,817	16,817	16,817
PHYSICAL THERAPY	TREATMENTS	5,745	5,937	5,937	5,937	5,937
OCCUPATIONAL THERAPY	TREATMENTS	6,923	7,154	7,154	7,154	7,154
SPEECH THERAPY	SESSIONS	1,763	1,822	1,822	1,822	1,822

Laguna Honda Hospital
City and County of San Francisco
Forecasted Statement of Revenue and Expenses
For Fiscal Years Ending June 30.

ATTACHMENT J

SCENARIO - 2% INCREASE IN MEDICAL REVENUE INFLATION

	2,008	2,009	2,010	2,011	2,012
Total Net Patient Revenue	\$115,438	\$121,534	\$123,822	\$126,031	\$128,342
Total Other Operating Revenue	259	267	267	267	267
Total Net Revenue	<u>115,697</u>	<u>121,801</u>	<u>124,090</u>	<u>126,328</u>	<u>128,610</u>
Operating Expenses					
Salaries & Wages	86,289	88,691	90,465	92,274	94,119
Benefits	21,768	22,374	22,822	23,278	23,744
Supplies	13,277	4,061	14,506	14,966	15,440
Services of Other Departments	5,325	5,480	5,639	5,803	5,971
Contracted Services	4,361	4,564	4,696	4,832	4,972
Provision for Bad Debts	732	771	786	802	818
Current Interest Expense	723	723	723	723	723
Start-up Costs	943	0	0	0	0
Total Operating Expenses	<u>131,753</u>	<u>135,942</u>	<u>138,914</u>	<u>141,955</u>	<u>145,064</u>
Gain (Loss) From Operations	(16,056)	(14,140)	(' 4,825)	(15,627)	(16,454)
General Fund Contribution					
Current Contribution	19,745	19,745	19,745	19,745	19,745
Cost of Living Adjustments	1,658	1,739	1,774	1,809	1,845
Total Current Contribution and Cost of Living Adjustments	<u>21,402</u>	<u>21,484</u>	<u>21,519</u>	<u>21,554</u>	<u>21,590</u>
Increase (Decrease) in General Fund Contribution	(5,347)	(7,344)	(6,694)	(5,928)	(5,136)

Laguna Honda Hospital
City and County of San Francisco
Forecasted Statement of Revenue and Expenses
For Fiscal Years Ending June 30.

	2,008	2,009	2,010	2,011	2,012
Total Net Patient Revenue	\$96,738	\$100,204	\$100,430	\$100,565	\$100,701
Total Other Operating Revenue	259	267	267	267	267
Total Net Revenue	96,997	100,472	100,697	100,832	100,969
Operating Expenses					
Salaries & Wages	86,289	88,691	90,465	92,274	94,119
Benefits	21,768	22,374	22,822	23,278	23,744
Supplies	13,277	14,061	14,506	14,966	15,440
Services of Other Departments	5,325	5,480	5,639	5,803	5,971
Contracted Services	4,361	4,564	4,696	4,832	4,972
Provision for Bad Debts	732	771	786	802	818
Current Interest Expense	723	723	723	723	723
Start-up Costs	943	0	0	0	0
Total Operating Expenses	131,751	135,942	138,914	141,955	145,084
Total Operating Expenses	(34,756)	(35,470)	(38,217)	(41,122)	(44,096)
Gain (Loss) From Operations	19,745	19,745	19,745	19,745	19,745
General Fund Contribution	1,858	1,739	1,774	1,809	1,845
Cost of Living Adjustments	21,402	21,484	21,519	21,554	21,590
Total Current Contribution and Cost of Living Adjustments	23,260	23,223	23,263	23,303	23,335
Increase (Decrease) in General Fund Contribution	13,354	13,986	15,698	19,568	22,505

Laguna Honda Hospital
City and County of San Francisco
Forecasted Statement of Revenue and Expenses
For Fiscal Years Ending June 30.

	2,008	2,009	2,010	2,011	2,012
Total Net Patient Revenue	\$92,554	\$95,895	\$96,120	\$96,255	\$96,391
Total Other Operating Revenue	259	267	267	267	267
Total Net Revenue	92,822	96,162	96,388	96,523	96,659
Operating Expenses					
Salaries & Wages	86,289	88,691	90,465	92,274	94,119
Benefits	21,768	22,374	22,822	23,278	23,744
Supplies	13,277	14,061	14,505	14,956	15,440
Services of Other Departments	5,325	5,480	5,639	5,803	5,971
Contracted Services	4,361	4,564	4,695	4,832	4,972
Provision for Bad Debts	732	771	786	802	818
Current Interest Expense	723	723	723	723	723
Start-up Costs	943	0	0	0	0
Total Operating Expenses	131,753	135,942	138,914	141,955	145,054
Gain (Loss) From Operations	(38,930)	(39,780)	(42,527)	(45,432)	(48,405)
General Fund Contribution					
Current Contribution	19,745	19,745	19,745	19,745	19,745
Cost of Living Adjustments	1,658	1,739	1,774	1,809	1,845
Total Current Contribution and Cost of Living Adjustments	21,403	21,484	21,519	21,554	21,590
Increase (Decrease) in General Fund Contribution	17,528	18,296	21,008	23,878	26,815

PUBLIC UTILITIES COMMISSION

PUBLIC UTILITIES COMMISSION

The San Francisco Public Utilities Commission (PUC) oversees three of the City's municipal utilities:

1. The Hetch Hetchy Project, which consists of water supply and power-generating facilities in the Sierra Nevada;
2. The water treatment and distribution system;
3. The wastewater treatment and disposal system, which collects and treats sewage and storm water flows within San Francisco.

Each of these three utilities represents a separate enterprise within the PUC with an independent financial report. Four divisions are responsible for the operation of the utilities.

The PUC's utility system begins in the Sierra Nevada, where the Hetch Hetchy Water and Power Division maintains three reservoirs and more than 650 acres of watershed, much of it located in Yosemite National Park. Water from the reservoirs is conveyed through a series of tunnels and pipelines from the mountains and across the Central Valley. En route, the water passes through four powerhouses, generating electricity for the City's municipal load and other customers.

At Tesla Portal in the East Bay, the Water Supply and Treatment Division takes over. In addition to Hetch Hetchy water, the Water Supply and Treatment Division draws another 15 percent of the total water supply from five reservoirs located in the East Bay and on the Peninsula. Water from these local sources is treated at two plants before it is delivered to Bay Area customers.

At the San Francisco border, the City Distribution Division assumes responsibility for storage and final delivery to San Francisco customers. The Division maintains eleven reservoirs and eight storage tanks within the City, and uses a series of pump stations and more than 1,200 miles of water mains to reach every elevation and corner of the City.

Finally, the City wastewater discharges and storm water runoff are captured by a system of more than 900 miles of sewer and storm drains. The Water Pollution Control Division maintains the wastewater collection system and operates three treatment plants, where chemical and biological treatment processes are used to remove pollutants before the wastewater is discharged into the San Francisco Bay and the Pacific Ocean.

In addition to these four operating divisions, there are nine bureaus that provide technical and administrative support services. This approach, according to the PUC, eliminates duplication of effort and contributes to more efficient operations.

Further information dealing with the operation of the Divisions and Bureaus will be found in subsequent sections of this report, when deemed necessary.

THE INFRASTRUCTURE COMMITTEE

The Infrastructure Committee of the Civil Grand Jury had several meetings with the management and other employees of the Public Utilities Commission (PUC). These meetings were held, primarily, at the offices of the Public Utilities Commission, 1155 Market Street, San Francisco.

Arrangements were made through the General Manager, Anson B. Moran, to meet with the various division managers and other members of their staff. During our meetings members of the Grand Jury were given an overview of the operations of the various divisions. These meetings proved to be very informative and very comprehensive. Although, at times, the information provided was highly technical and, for the layman, mind-boggling, those presenting the information were patient and able to adjust their remarks (presentation) to our understanding.

Following these briefing sessions members of the Grand Jury requested and were given tours of the various operating facilities, located in San Francisco and San Mateo County. Included in these tours were visits to:

1. Water Supply and Treatment Division in Millbrae
2. Harry W. Tracy Water Treatment Plant
3. Various Reservoirs and Pumping Stations
4. Various Waste Water Plants
5. Crystal Springs Reservoir and Water Shed Area
6. Warehouse and Maintenance Shops

In addition to the above local visits, some of the Infrastructure Committee members made a tour of Hetch Hetchy Water and Power facility, located in Mariposa County and Moccasin Power House, located in Tuolumne County.

The actual visits to various sites and operational facilities provided the Grand Jury with a better understanding and appreciation for the magnitude of the operation. The responsibility placed upon those who are charged with providing and keeping our water supply safe and secure should not be taken lightly. The Clean Water operations, including Sewer System, should likewise be viewed. The members of the Grand Jury were greatly impressed with the professionalism demonstrated during our meetings and visitations.

The premises and condition of the equipment appeared to be well maintained and functioning properly. Members of the Grand Jury were impressed with the safety and backup systems built into the various operations.

Notices of meetings with agenda and minutes of the Public Utilities Commission were provided to the Grand Jury. This material provided an insight to the activities of the PUC.

Four divisions are responsible for the operation of the utilities, namely:

1. Hetch Hetchy Water and Power Division
2. Water Supply and Treatment Division
3. City Distribution Division

4. Water Pollution Control Division

In addition to the four operating divisions, there are nine bureaus that provide technical and administration support services.

1. Water Quality Bureau
2. Bureau of Environmental Regulation and Management
3. Systems Planning and Regulation Compliance Bureau
4. Utilities Engineering Bureau
5. Customer Service Bureau
6. Commercial Land Management Bureau
7. Bureau of Management Information Systems
8. Personnel and Training Bureau
9. Finance Bureau

WATER POLLUTION CONTROL AND SEWER OPERATIONS

It is fortunate that the Public Utilities Commission have many talented individuals in management and a work force that is conscientious and dedicated to maintaining and improving existing facilities. The challenges facing this Division are now and have been critical for a long time. Many of the sewer pipes (discharge system) have been in use for more than 150 years.

Meetings were held with management personnel to discuss the present sewer system and future programs and plans for the replacement of the older systems. For several years it has been hoped that a long-range plan could be worked out for the systematic, much needed replacement of the system.

We requested and were given reports, dated 6/7/99, showing:

1. SEWER REPAIR BACKLOG REPORT-ALL JOBS-SORTED BY PRIORITY

Summary:

Total number of jobs on backlog:	1581 jobs
Average days waiting on backlog:	658 days
Longest wait on backlog:	2624 days
Shortest wait on backlog:	0 days

2. SEWER REPAIR BACKLOG REPORT-SSR DIG UPS AND INSPECTIONS NEEDED OR NEXT-SORTED BY PRIORITY-FIRST 75 JOBS

Summary:

Total number of jobs on backlog:	1451 jobs
Average days waiting on backlog:	688 days
Longest wait on backlog:	2624 days
Shortest wait on backlog:	0 days

3. SEWER REPAIR BACKLOG SENT TO DPW REPORT-FIRST 75 JOBS- SORT BY PRIORITY

Summary:

Total number of jobs on backlog:	148 jobs
Average days waiting on backlog:	353 days
Longest wait on backlog:	1643 days
Shortest wait on backlog:	5 days

With the summary information and by way of explanation the additional information was provided:

Currently, the 1581 locations backlogged across both departments PUC & DPW can be split into 1528 SPOT REPAIR locations and 53 EMERGENCY CAPITOL (i.e., full block replacement) locations. As the SPOT REPAIR locations increase in Priority, they are TV'ed to determine the extent of the repair. At that time, a SPOT REPAIR location can become a CAPITOL location.

Using DPW/BCM's average cost of a CONTRACT SPOT REPAIR of \$8,486, the approximate cost to complete all 1528 SPOT REPAIRS is about 12.9 MILLION DOLLARS. This would be a one-time cost.

Last year, PUC also transmitted about 905 locations to DPW for SPOT REPAIR. The approximate cost to complete all of these repairs (both completed and currently on DPW's own backlog (i.e., pending) is about 7.7 MILLION DOLLARS. This would be assumed to be an annual cost.

At the present time, due to a lack of funding, it has not been possible to develop a long-term replacement program for the City Sewer System.

It is the opinion of the Grand Jury that the City cannot continue to use a BAND-AID approach to such a vital and necessary service.

WATER DEPARTMENT CITY DISTRIBUTION DIVISION

As with other Divisions of the Public Utilities Commission, the City Distribution Division appears to be staffed with individuals who are dedicated and conscientious in the performance of their duties and responsibilities. It is this Division's responsibility to distribute high quality water, operate and maintain storage and distribution facilities, and maintain in-City lands and property under the operation and control of the Public Utilities Commission.

The Water Department City Distribution Division, like the Water Pollution Control Division, is faced with the fact that many of the City's water pipes are 100 years or older. A five-year plan has been developed for replacement of water pipes throughout the City. This, however, is an ever-changing schedule and is modified or changed as circumstances dictate. It is their goal to replace 100 blocks a year. This is in addition to the emergency and Band-Aid repairs that need to be made.

It is the opinion of the Grand Jury that the replacement of water pipes is also a critical issue and one that has to be addressed without further delay.

WATER SUPPLY AND TREATMENT DIVISION

The Water Supply and Treatment Division assumes responsibility for water from Hetch Hetchy at the Tesla Portal in Alameda County. From there, the water is conveyed through four pipelines to customers located in Alameda, Santa Clara, and San Mateo Counties, as well as San Francisco. The Division provides another 15 percent of the total water supply from reservoirs located in the East Bay and on the Peninsula. These local water sources require filtration and treatment at two points.

Recently the Division had modified the treatment process at Sunol to enhance flocculation and sedimentation; modified the chemical feed system at Harry Tracy Water Treatment Plant; installed remote controls for the Thomas Shaft disinfection station; inspected and repaired 19 miles of transmission pipelines; initiated a valve exercising and maintenance program, which is intended to operate, inspect, and maintain each valve in the transmission system every two years.

As with the other Divisions, there is an ever-increasing need to upgrade the present infrastructure. With new technology and the ever-changing state and federal regulations, this Division continues to be alert for ways to improve and increase the water supply to its customers.

HETCH HETCHY WATER AND POWER DIVISION

The Hetch Hetchy Water and Power Division is responsible for more than 85% of San Francisco's water supply and for the generation of electricity from that resource. Approximately one third of the electricity is used by the City's municipal customers (e.g., the Municipal Railway, the Recreation and Parks Department, the Port, City hospitals, street lighting, the Moscone Center, and the water and sewer utilities). The balance of the power is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts. The Hetch Hetchy Projects consists of reservoirs,

hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power from the Sierra Nevada more than 165 miles to customers in San Francisco and the Bay Area.

Hetch Hetchy operates as two related but separate water systems and associated power components. The primary system diverts domestic water from the Hetch Hetchy Reservoir to the Water Supply and Treatment Division through the Kirkwood and Moccasin Power Plants. The second system diverts water from Lake Lloyd and Lake Eleanor to the Don Pedro Reservoir through Holm Power Plant. Water impounded in the Don Pedro Reservoir satisfies the Raker Act entitlements of the Modesto and Turlock Irrigation Districts.

Electric power generated at the four power plants is conveyed through approximately 165 miles of high voltage transmission lines to delivery points for the Modesto and Turlock Irrigation Districts, and through interconnection with Pacific Gas and Electric's system for transmission to San Francisco for municipal purposes.

As the result of an agreement reached with Pacific Gas and Electric Company last year, a number of municipal and large industrial customers would be turned over to Hetch Hetchy Water and Power. Power sales to these customers are projected to produce net revenues of approximately \$37 million over the next four-and-a-half years.

Through its Bureau of Energy Conservation, Hetch Hetchy has further developed its in-house capability to provide a broad array of energy services, including design consultations, construction, operations, and maintenance of electric distribution facilities. The Bureau of Energy Conservation has completed design reviews for several important City projects, that are expected to result in substantial savings in energy costs.

THE RAKER ACT

It is fitting that this report should contain excerpts from the Raker Act without which the present water and power facilities, governed by the Public Utilities Commission, would not have been created.

On April 7, 1913, Representative John Edward Raker of Manteca, California, introduced HR 112, the first of several bills to be presented to the House of Representatives for the establishment of the Hetch Hetchy water project. HR 112 was defeated, as were 3 other bills introduced that same year. Finally, after months of negotiations involving a myriad of interested parties, on August 1, 1913, Representative Raker introduced the Hetch Hetchy Act, more commonly referred to as the Raker Act. The Raker Act was passed by the House of Representatives on September 3, 1913, by the Senate on December 2, 1913, and was signed by President Woodrow Wilson on December 6, 1913. The Board of Supervisors ratified the Raker Act the following spring.

The Raker Act was one of the most unusual pieces of legislation to be enacted by Congress. It is the foundation for the water system that serves San Francisco and various neighboring areas of San Mateo, Santa Clara, and Alameda Counties.

The Raker Act granted to the City and County of San Francisco lands and rights of way in Yosemite National Park, Stanislaus National Forest and other federal land in nearby areas of California for the purpose of constructing, maintaining and operating "aqueducts, canals, ditches, pipes, pipe lines, tunnels and conduits for the conveying water" to the City and County of San Francisco and to certain other areas in the vicinity which would share in the water. The City was also permitted to construct, operate and maintain plants for the generation of electricity and facilities for the distribution and sale of electricity. The City was authorized to build, operate and maintain reservoirs and dams, to build roads and other means of "locomotion, transportation, and communication." It was authorized to use materials from the lands which might be necessary for the project. The grant by the United States was very broad.

Pursuant to this grant, the City first built a railroad necessary for the transporting materials, men and equipment into this underdeveloped area. Telephone lines were established for communications. A road network was built, as were the reservoirs and dams which Congress had authorized, and the conduits, pipes and facilities for conveying the water to the San Francisco Bay Area. The City also built treatment facilities to ensure the purity of the water.

The City was prohibited from ever selling water to any entity other than a municipality or municipal water district or irrigation district. From the outset the City has provided water to the Turlock and the Modesto Irrigation Districts, which had prior rights to receive water and those rights are protected by the legislation. The Act sets forth the formula for determining the amounts and priority of water to be delivered to the Districts.

Under the Raker Act, the City may only sell water to the Districts at a price which will return to the City its actual costs. No such limitation is placed on the City's sale of electricity. The State of California is allowed to set the rates the City may charge for the sale of electricity. If the State does not regulate such rates, the Secretary of the Interior may do so.

RESPONSES REQUIRED

Mayor

Board of Supervisors

PUC

DPW

Purchasing

SAN FRANCISCO INTERNATIONAL AIRPORT

VIP PARKING

SAN FRANCISCO INTERNATIONAL AIRPORT

VIP PARKING

Summary:

The Civil Grand Jury learned of a practice at the San Francisco International Airport known as VIP Parking, whereby certain governmental employees and non-governmental persons are permitted to park at the Airport without charge. Since the practice was reported in the San Francisco Examiner in March of 1999 and received unfavorable comment in an editorial in that newspaper, the Civil Grand Jury deemed that it would be appropriate to learn more of the practice and determine whether the practice is an appropriate one at this time.

Procedure:

The Civil Grand Jury met with John Martin, the Director of the Airport. Mr. Martin was extremely helpful and provided some documentation regarding the practice.

The VIP Parking Policy:

The VIP Parking program at the Airport is a program whereby individuals selected by the Airport Director, and those nominated by the five Airport Commissioners, are permitted to park in the Valet Parking area on the fourth floor of the Airport garage, (although they are not entitled to valet service) for a period usually not to exceed 72 hours, and never to exceed 7 days. The privilege extends to their spouses, if they call the Airport in advance. While the passes are not deemed transferable, apparently until this year there was no attempt to check the identity of those presenting passes and the passes may have been used by persons other than those to whom they were issued. Now identification is required when checking in at Valet Parking. The charge for parking at the Airport is \$22.00 per day, while parking at the Valet Parking area is \$35.00 per day.

Mr. Martin advises that they average 2 to 4 spaces used per day. (Formerly a space was fenced off for VIP Parking, enclosing 20 parking spaces. This was eliminated when it was judged to be unnecessary). No written records are kept of those parking in the garage, or when they park and for how long, except records are kept of parking by certain elected officials so that they may avoid violating certain laws relating to limits on acceptance of gifts. There is no record from which the cost of the VIP Parking policy may be calculated.

There is no written documentation governing the VIP Parking program at the Airport. The policy has been neither approved nor disapproved by the Board of Supervisors (although all Supervisors have passes). The policy has existed for decades and has likely existed as long as the Airport has charged for parking. Similar programs exist at all major airports, not just at San Francisco International Airport.

Before 1992 there were 5000 passes outstanding. When Mr. Martin became Director of the Airport in 1996, there were approximately 365 passes outstanding. He has reduced the number of passes issued and today the Airport issues 182 passes. (See Appendix B).

Those entitled to passes include California's two United States Senators, members of the United States House of Representatives from the Bay Area, members of the California Legislature from the Bay Area, members of the Board of Supervisors of the City and County of San Francisco, and certain employees of the City and County of San Francisco, such as the heads of City Departments and the five Airport Commissioners.

In addition, passes are given to select non-governmental people. Mr. Martin advised the Grand Jury that the five Airport Commissioners each nominate five to fifteen people each. However from the list provided by Mr. Martin, it appears that Henry E. Berman, President of the Airport Commission has nominated twenty seven of the people on the list. Commissioner Strunsky appears to have nominated four passes for his family, including two in his own name. There are no standards governing who they may appoint. However, Commissioners are supposed to select people who are

useful to the Airport and whose good will the Airport considers important. Included in this group are local union leaders, contractors, business people and others, apparently including the young son of one of the Commissioners. The list changes at the beginning of each year. (Appendix C is a list of those appointed by Airport Commissioners).

The list is prepared without consultation with the Mayor. Mr. Martin has never had a conversation with the Mayor regarding the VIP Parking policy. Mayor Willie Brown had a VIP Parking pass when he was in the California Assembly, but does not now have one.

FINDINGS

The Airport has continued a policy over a period of many years, probably decades, which is similar to policies followed at other major airports across the country. Nevertheless, the Civil Grand Jury finds that this policy is not in the best interest of the taxpayers or residents of San Francisco. While the cost to the City is probably minimal, it is not wise to continue a policy which grants elitist style benefits to a few, who are chosen in a manner that suggests favoritism. While there may not be anything substantially wrong with the present policy, and while it does not rise to the level of a scandal or major impropriety, it does smack of the old boys network or improper favoritism.

The private individuals on the VIP Parking list are probably better able to afford parking rates than are most of those who use the Airport Garage. The governmental persons on the list, elected officials and others, are probably entitled to reimbursement of their parking if they use the garage for business purposes. If they do not, they should not get a free ride. The state and federal employees and elected officials should not be subsidized by San Franciscans.

The Civil Grand Jury believes that it is in the best interests of San Francisco to terminate this anachronism. It may be more a matter of appearance than real substance, but the time has come to change an outmoded policy.

RECOMMENDATION

The VIP Parking program should be terminated forthwith. There should be no exceptions for private persons or for government employees or elected officials.

RESPONSES REQUIRED

Mayor

Board of Supervisors

Director of San Francisco International Airport

Airport Commission

APPENDICES

APPENDIX A

May 26, 1999, Letter from Airport Director John L. Martin to Civil Grand Jury

APPENDIX B

1999 Garage VIP Parking Permits
Numerical Listing

APPENDIX C

List of Parking Permits Nominated by Airport Commissioners

APPENDIX A

**Airport
Commission**
City and County
of San Francisco
Willie L. Brown, Jr.
Mayor

Henry E. Berman
President

Larry Mazzola
Vice President

Michael S. Strunsky

Linda S. Crayton

Caryl Ito

JOHN L. MARTIN
Airport Director



May 26, 1999

Mr. William Kelly
San Francisco Civil Grand Jury
3732 Fillmore Street
San Francisco, California 94123

Dear Mr. Kelly:

Thank you for the opportunity to meet with the Transportation Committee of the San Francisco Civil Grand Jury to discuss San Francisco International Airport's restricted parking policy. The questions posed by the committee were thoughtful and assisted me in developing improvements to the policy.

First of all, let me respond to the requests made during my discussion with the committee and those contained in your follow-up memorandum to Jon Ballesteros dated April 23, 1999. In response to the requests made by the committee during our meeting, please find the attached:

- A sample San Francisco International Airport restricted parking permit.
- Copies of letters explaining restrictions on the use of permits by elected officials.

The committee also requested copies of any forms used to report the use of restricted parking privileges by public officials. As I mentioned to the committee, it has not been the practice of the Airport's parking management contractor to document the use of restricted parking privileges. Consequently, we have not provided permit holders with reports on their use of restricted parking and have not developed forms to make such reports. However, in light of our discussions, I have made changes in policy to address this issue that I will discuss below.

Next, allow me to respond to the four questions contained in your April 23, 1999 memorandum as follows:

1. The San Francisco Airport Commission is comprised of five members and they are:

- Hon. Henry E. Berman, President
- Hon. Larry Mazzola, Vice-President
- Hon. Michael S. Strunsky, Member
- Hon. Linda S. Crayton, Member
- Hon. Caryl Ito, Member

Mr. William Kelly

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2. Attached you will find a list of all Airport Commission designated permit holders with the designating Commissioner listed in the far right column.
3. The number of permits provided to individuals within the categories identified in your memorandum is as follows:

Category	Number of Permits
Elected Federal Officials	15
Elected State Officials	14
Elected City Officials	18
Non-elected Governmental persons	16
• International 1	
• State 1	
• Local/City 11	
• Regional 3	
Governmental Officials from other Counties	5
Union Officials	13
Contractors, Construction People	6
Commissioner Designees	72
Others – individuals providing professional service to the Airport or performing official governmental business.	23

The total number of outstanding permits has steadily decreased over the last five years. There were approximately 365 permits issued in 1995. For calendar year 1999, 182 permits have been issued.

4. Per day parking in the Central Garage is \$22.00. Per day parking in the valet parking area is \$35.00 per day. It should be noted that the restricted parking permit does not entitle the permit holder to valet service.

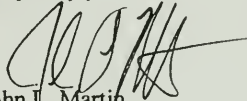
My discussions with your committee, coupled with the need to monitor all airport operations and facilities due to the extensive amount of Airport construction currently underway, has led me to reevaluate the Airport's policy with regard to tracking the use of restricted parking privileges. As a result, I have directed the Airport's parking management contractor to closely monitor and document the use of all restricted parking permits. I also have asked all permit holders to limit the use of their restricted parking privileges to no more than 15 overnights stays in a calendar year, with the exemption of governmental officials traveling on official business. All permit holders must present photo identification upon entering the restricted parking and the name on the piece of identification must match the name on the permit.

Mr. William Kelly
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As always, permit holders are expected to notify Airport Administration each time they intend to park in the restricted parking area overnight.

I hope this information is helpful to you and the other members of the Civil Grand Jury. If you have any further questions, please feel free to contact me at (650) 794-5000.

Very truly yours,

A handwritten signature in black ink, appearing to read 'JLM', with a long horizontal flourish extending to the right.

John L. Martin
Airport Director

APPENDIX B

1999 GARAGE VIP PARKING PERMITS NUMERICAL LISTING

VOID: 109; 247; 263; 273

REVISED 2/12

#	PERMITTEE	AGENCY
001	ARIAS, Bernard	
002	ANDERSON, Bob	SMC Labor Council
003	BACCARI, Alessandro	
004	BALLARD, Spencer	JF Brown & Co.
005	BESSER, Steve/Jackie	
006	BRANDFORD, Napoleon	Siebert, Brandford, Shank...
007	CALLANAN, Mary	
008	CAMPION, Carney	Golden Gate Bridge District
009	CATALANO, Dick	
010	COWAN, Ronald H.	
011	DAHMS, Larry	Metropolitan Transportation Comm.
012	FITZGERALD, Sister Ellen	Sisters of Mercy
013	GEWARGIS, George	
014	GOURDINE, Andrea	DHR, CCSF
015	GRUBER, Dave	
015	QUATTLEBAUM, Fred	
016	HARNED, Roger	
017	HARTMAN, Craig	SOM
018	HAWLEY, Jeff/Donna	
019	HORCHER, Paul	Mayor's Office
020	HSIEH, Tom	
021	JOHNS, Eleanor	Mayor's Office
022	JOHNSON, Walter	SF Labor Council
023	KAWA, Steve	Mayor's Office
024	KESSLER, Shelly	SMC Central Labor Council

#	PERMITTEE	AGENCY
025	LAMPARAS, Daz	Local 790
026	LAU, Fred	Chief, SFPD
027	MACK, Chuck	Teamsters Joint Council
028	MARKS, John	SF Convention/Visitors Bureau
029	MAYER, Robert	
030	McCONNELL, Brian	
031	McCRAV, Joe	
032	McWILLIAMS, Brian	Longshore & Warehouse Union
033	MILLER, Tim	
034	MOONEY, Josie	Local 790
035	NORMAN, Pat , Honorable	President, Police Commission
036	NOTHENBERG, Rudy	
037	PATT, Frank	
038	POPOV, Y.V.	Russian Consul General
039	PULASKI, Art	California Labor Federation
040	RUTLAND, Billy	The Rutland Group
041	SAUNDERS, Gary	Local 467
042	SAUNDERS, Marcy	SMC Building/Construction Trade
043	SMC BUILDING&CONSTRUCTION TRADE	Local 467
044	SCHULTZ, Charlotte	Mayor's Office of Protocol
045	SHORENSTEIN, Walter	
046	SIMMONS, George	
047	SMITH, Stan	Building Trades Council
048	SUNSHINE, Stuart	Mayor's Office
049	SURFACE, Robert	
050	TRAVIS, Will	SF Bay Conservation & Dev.
051	VINCENT, Don	Local 39
052	WAGNER, Anthony	SF General Hospital
053	WALKER, Charlie	

#	PERMITTEE	AGENCY
054	WATADA, Gordon	Parsons
055	WEIL, Bob & Heidi	
056	WEIRS, Billy	
057	BOXER, Barbara, Honorable	U.S. Senator
058	CAMPBELL, Tom, Honorable	U.S. Congressman
059	ESHOO, Anna G., Honorable	U.S. Congresswoman
060	FARR, Sam, Honorable	U.S. Congressman
061	FEINSTEIN, Dianne, Honorable	U.S. Senate
062	LANTOS, Tom, Honorable	U.S. Congressman
063	LEE, Barbara, Honorable	U.S. Congresswoman
064	LOFGREN, Zoe, Honorable	U.S. Congresswoman
065	MILLER, George, Honorable	U.S. Congressman
066	PELOSI, Nancy, Honorable	U.S. Congresswoman
067	RADANOVICH, G. Honorable	U.S. Congressman
068	STARK, Pete, Honorable	U.S. Congressman
069	TAUSCHER, Ellen, Honorable	U.S. Congresswoman
070	THOMPSON, Mike, Honorable	U.S. Congressman
071	WOOLSEY, Lynn C., Honorable	U.S. Congresswoman
072	BIERMAN, Sue, Honorable	SF BOS
073	BROWN, Amos, Honorable	SF BOS
074	KATZ, Leslie, Honorable	SF BOS
075	KAUFMAN, Barbara, Honorable	SF BOS
076	LENO, Mark, Honorable	SF BOS
077	MEDINA, Jose, Honorable	SF BOS
078	NEWSOM, Gavin, Honorable	SF BOS
079	TENG, Mabel, Honorable	SF BOS
080	YAKI, Michael, Honorable	SF BOS
081	YEE, Leland, Honorable	SF BOS
082	BROWN, Jeff	SF Public Defender

#	PERMITTEE	AGENCY
083	HALLINAN, Terence	SF District Attorney
084	HARRINGTON, Ed	SF Controller
085	HENNESSEY, Michael	SF Sheriff
086	LEAL, Susan	SF Treasurer
087	RENNE, Louise H.	SF City Attorney
088	WARD, Doris	SF Assessor
089	ARONER, Dion, Honorable	State Assembly
090	BURTON, John L., Honorable	State Senate
091	CORBETT, Ellen, Honorable	State Assembly
092	CUNNEEN, Jim, Honorable	State Assembly
093	DUTRA, John, Honorable	State Assembly
094	FIGUEROA, Liz, Honorable	State Senate
095	GORDON, Richard, Honorable	San Mateo BOS
096	GRIFFIN, Mary, Honorable	San Mateo BOS
097	HILL, Jerry, Honorable	San Mateo BOS
098	LEMPERT, Ted, Honorable	State Assembly
099	MAZZONI, Kerry, Honorable	State Assembly
100	MIGDEN, Carole, Honorable	State Assembly
101	NEVIN, Michael D., Honorable	San Mateo BOS
102	PAPAN, Louis J., Honorable	State Assembly
103	PERATA, Don, Honorable	State Senate
104	SHELLEY, Kevin, Honorable	State Assembly
105	SHER, Byron, Honorable	State Senate
106	SPEIER, Jackie, Honorable	State Senate
107	AMMIANO, Tom, Honorable	SF BOS President
108	YUN/NEUMANN-LORECK, Kay & Andrea	
109	VOID	VOID
110	GIBSON, Rose Jacobs, Honorable	SMC Supervisor
111	BECERRIL, Alicia	SF BOS

#	PERMITTEE	AGENCY
200	BEGLEY, Robert	Hotel Council
201	BERMAN, Ronald	
202	BLACK, Shirley Temple, Honorable	
203	BLUM, Richard	
204	BRONFMAN, Samuel	
205	DE LUCA, John	
206	GANTZ, Holger	
207	GOODMAN, Charles	
208	GREENE, Richard	
209	HORN, Tom	
210	LAWRENCE, Leslie	
211	LURIE, Robert	
212	MAYS, Willie	
213	MITTEL, Stephen	
214	NAIFY, Robert	
215	OSHER, Bernard	
216	RIZZO, Jeff	
217	SHANE, Elliott	
218	SWIG, Cissy	
219	SWIG, Rick	
220	WILLIAMS, Cecil, Reverend	
221	CHEW, Greg	
222	SUZUKI, Connie	
223	CHANG, Patti	
224	MUNAKATA, Don	
225	SUZUKI, Stewart	
226	MELARA, Sonia	
227	CHENG, Claudine	
228	MORI, Jeff & Sandy	

#	PERMITTEE	AGENCY
229	SHEK, Moira	
230	PHELPS, Regina	
231	BAJSEL, Lana	
232	ANTIERI, Michael	
233	BLITCH, Lee	
234	BROMLEY, Richard	
235	COLLINS, Mack	
236	CONDIT, David	
237	HEDG-PETH, Lois	
238	SHAUER, Bob	
239	JAVELLANA, Jennifer	
240	KNIGHT, Drew & Annette	
241	WITHERINGTON, Rick	
242	NOT ISSUED	NOT ISSUED
243	LaFOLLETTE, Charles	
244	MOLINARI, Jim	
245	COBLENTZ, PATCH, DUFFY & BASS	
246	COBLENTZ, PATCH, DUFFY & BASS	
247	VOID	VOID
248	RIDER, J. Alfred, Dr.	
249	MEISNER, Jordon	
250	ARONOFF, Myrna	
251	BAKAR, Gerson	
252	BECHTLE, Nancy	
253	BUCK, Kevin	
254	DAVIS, Jack	
255	DENISON, Stephen	
256	REUBEN, James	
257	SCHLEGEL, John	

#	PERMITTEE	AGENCY
258	SILBERT, Mimi	
259	THOMAS, Michael Tilson	
260	KAY, Steven	
261	BARGHAHN, Lisa	
262	HENDLER, Joel	
263	VOID	VOID
264	STRUNSKY, Michael S.	
265	STRUNSKY, Michael S.	
266	FRIEND, Gene	
267	STRUNSKY, Lara	
268	STRUNSKY, Burke	
269	QUAN, Bruce	
270	QUARANTA, Angelo	
271	YEE, Benny	
272	MAZZOLA, Larry, Jr.	
273	VOID	VOID
274	MAZZOLA, Larry, Honorable	
275	WOESSNER, Chris	

2. It also highlights the need for regular audits and the importance of having a clear understanding of the company's financial position at all times.

3. The second part of the document focuses on the importance of budgeting and forecasting, and how these tools can be used to manage the company's resources effectively.

4. It also discusses the importance of having a clear understanding of the company's cash flow and the need to maintain a healthy balance sheet.

6. It also discusses the importance of having a clear understanding of the company's debt obligations and the need to manage these obligations carefully.

8. It also discusses the importance of having a clear understanding of the company's capital structure and the need to manage this structure carefully.

10. It also discusses the importance of having a clear understanding of the company's financial trends and the need to analyze these trends carefully.

12. It also discusses the importance of having a clear understanding of the company's financial opportunities and the need to take advantage of these opportunities.

14. It also discusses the importance of having a clear understanding of the company's financial challenges and the need to address these challenges.

16. It also discusses the importance of having a clear understanding of the company's financial position and the need to maintain this position.

18. It also discusses the importance of having a clear understanding of the company's financial present and the need to manage this present.

20. It also discusses the importance of having a clear understanding of the company's financial future and the need to plan for this future.

APPENDIX C



#	PERMITTEE	AGENCY	LIST
200	BEGLEY, Robert	Hotel Council	Berman
201	BERMAN, Ronald		Berman
202	BLACK, Shirley Temple, Honorable		Berman
203	BLUM, Richard		Berman
204	BRONFMAN, Samuel		Berman
205	DE LUCA, John		Berman
206	GANTZ, Holger		Berman
207	GOODMAN, Charles		Berman
208	GREENE, Richard		Berman
209	HORN, Tom		Berman
210	LAWRENCE, Leslie		Berman
211	LURIE, Robert		Berman
212	MAYS, Willie		Berman
213	MITTEL, Stephen		Berman
214	NAIFY, Robert		Berman
215	OSHER, Bernard		Berman
216	RIZZO, Jeff		Berman
217	SHANE, Elliott		Berman
218	SWIG, Cissy		Berman
219	SWIG, Rick		Berman
220	WILLIAMS, Cecil, Reverend		Berman
221	CHEW, Greg		Ito
222	SUZUKI, Connie		Ito
223	CHANG, Patti		Ito
224	MUNAKATA, Don		Ito
225	SUZUKI, Stewart		Ito
226	MELARA, Sonia		Ito
227	CHENG, Claudine		Ito
228	MORI, Jeff & Sandy		Ito

#	PERMITTEE	AGENCY	LIST
229	SHEK, Moira		Ito
230	PHELPS, Regina		Ito
231	BAJSEL, Lana		Ito
232	ANTIERI, Michael		Crayton
233	BLITCH, Lee		Crayton
234	BROMLEY, Richard		Crayton
235	COLLINS, Mack		Crayton
236	CONDIT, David		Crayton
237	HEDG-PETH, Lois		Crayton
238	SHAUER, Bob		Crayton
239	JAVELLANA, Jennifer		Crayton
240	KNIGHT, Drew & Annette		Crayton
241	WITHERINGTON, Rick		Crayton
242	NOT ISSUED	NOT ISSUED	
243	LaFOLLETTE, Charles		Berman
244	MOLINARI, Jim		Berman
245	COBLENTZ, PATCH, DUFFY & BASS		Berman
246	~~COBLENTZ, PATCH, DUFFY & BASS~~	VOID	Berman
247	VOID	VOID	
248	RIDER, J. Alfred, Dr.		Berman (Fleishel)
249	MEISNER, Jordon		Berman (Fleishel)
250	ARONOFF, Myrna		Strunsk
251	BAKAR, Gerson		Strunsk
252	BECHTLE, Nancy		Strunsk
253	BUCK, Kevin		Strunsk
254	DAVIS, Jack		Strunsk
255	DENISON, Stephen		Strunsk
256	REUBEN, James		Strunsk
257	SCHLEGEL, John		Strunsk

#	PERMITTEE	AGENCY	LIST
258	SILBERT, Mimi		Strunsky
259	THOMAS, Michael Tilson		Strunsky
260	KAY, Steven		Strunsky
261	BARGHAHN, Lisa		Berman
262	HENDLER, Joel		Strunsky
263	VOID	VOID	
264	STRUNSKY, Michael S.		Strunsky
265	STRUNSKY, Michael S.		Strunsky
266	FRIEND, Gene		Berman
267	STRUNSKY, Lara		Strunsky
268	STRUNSKY, Burke		Strunsky
269	QUAN, Bruce		Ito
270	QUARANTA, Angelo		Mazzola
271	YEE, Benny		Mazzola
272	MAZZOLA, Larry, Jr.		Mazzola
273	VOID	VOID	
274	MAZZOLA, Larry, Honorable		Mazzola
275	WOESSNER, Chris		Mazzola

SAN FRANCISCO MUNICIPAL RAILWAY



THE SAN FRANCISCO MUNICIPAL RAILWAY

INTRODUCTION

The 1998-1999 San Francisco Civil Grand Jury chose to investigate the San Francisco Municipal Railway (MUNI) because of the visible difficulties faced by MUNI and the wide coverage of these difficulties by the local media. The Grand Jury inspected the cable car facilities; the electric trolley facilities at the Presidio and Potrero yards; the diesel bus facilities at the Flynn, Woods, Marin Avenue and Kirkland yards; the light rail facility at the Green yard; the restored street car facility at the adjoining Geneva facility; and the Central Control at West Portal. The Grand Jury reviewed a vast volume of materials, including the following: an excellent management audit prepared in 1995 by Harvey Rose, the City's Budget Analyst; an Action Plan, developed in 1996 by the Board of Supervisors in response to the management audit; a 1999 report to the Mayor by the New MUNI Task Force appointed by the Mayor, maintenance manuals, training manuals, budgets, organization charts, studies, memoranda, schedules, and other documents relating to the operation of MUNI.

The Grand Jury met with the following individuals: Mayor Willie Brown; Supervisor Leslie Katz, chair of the Transportation Committee of the Board of Supervisors; countless representatives of MUNI, including Emilio Cruz, the General Manager until early in 1999; Michael Burns, the new General Manager; and David Stumpo, the Chief Operating Officer; the MUNI Council, composed of Louise Renee, the City Attorney, Edward Harrington, the Controller, Edwin Lee, the Director of Purchasing, Andrea Gourdine, the Director of Human Resources, and Carmen Clark, Executive Director of the Transportation Commission; John E. Hirten, the Chair of the Mayor's New MUNI Task Force; Harvey Rose, the City's Budget Analyst; Cindy Monroe, the newly appointed head of the MUNI Human Resources Division; Andrea Gourdine, the Director of Human Resources for the City; the heads of operations and maintenance for each of the yards where vehicles are stored and maintained; Raymond Antonio, the president of Local 250A of the Transport Workers Union; and many other management personnel and MUNI employees.

The Grand Jury would like to express its appreciation for the extensive cooperation and help provided by the employees of MUNI. The Grand Jury met with a great number of MUNI employees at each location and noted that, despite the existence of many problems, the employees seemed to approach their jobs with a professional attitude and a desire to help make the system work. They seemed extremely frustrated by the failings of the system and deeply concerned regarding the perceived public attitude of despair with regard to MUNI. The employees were very open in our discussions and proved extremely helpful.

Emilio Cruz, the MUNI Director, regrettably left MUNI to enter private industry. He is an experienced civil engineer, who appeared to be an able administrator. He had no prior transportation experience before coming to MUNI, which some considered to be a shortcoming for the position. The Grand Jury found that Mr. Cruz was extremely knowledgeable about the MUNI system and its problems. It appeared that he had been very active in attempting to set MUNI on a steady course toward improvement. He emphasized that MUNI's problems were not of recent origin and that MUNI needed significant time to address them. Mr. Cruz felt that, if a Director is supported by able, experienced transportation personnel, and if he possesses good leadership and management skills, the lack of prior transportation experience need not be a detriment. The Grand Jury cannot express an opinion as to the impact of Mr. Cruz' lack of prior transit experience on his performance as MUNI General Manager.

The Grand Jury found MUNI to be a Department floundering as a result of many years of neglect by a series of mayors and the Board of Supervisors, all of which utterly failed in their duty to provide it with proper funding, adequate management and support. The Department is a victim of political maneuvering which has sacrificed the best interests of MUNI and the public to further individual priorities. Policy decisions appear to have been made for political reasons. Whenever budgets had to be trimmed, MUNI was one of the primary targets for frugality. Most of all, MUNI has suffered greatly from a lack of effective management over a period of some time.

The current administration has restored some of the needed funding, although the increase appears to fall far short of what is needed to restore MUNI to a respectable, efficient transit system. The current administration has also attempted to create an atmosphere where long range planning might prosper. The Mayor's creation of the New MUNI Task Force and the MUNI Council were positive steps in attempting to cure the present crisis.

THE IMPACT OF ENACTMENT OF BALLOT MEASURES AFFECTING THE OPERATIONS OF MUNI

The operations of MUNI have been severely damaged by two ballot measures, Proposition A, a Charter Amendment in 1991 and Proposition M in 1993, which altered its operations significantly.

In 1991, the voters of San Francisco passed Proposition A which amended the San Francisco Charter to add Section 8.517-2 entitled "Early Service Retirement." Proposition A was placed on the ballot by the Board of Supervisors. This provision, commonly known as "Three Plus Three", encouraged early retirement by City employees by adding three years of service and three years of age for the purpose of calculating retirement entitlement. It also provided for a substantial reduction in employee levels, particularly employees with salaries in excess of \$60,000. This well-intentioned cost cutting measure had a disastrous impact on MUNI, from which, according to many, MUNI has never recovered. MUNI lost many of its most experienced personnel, and apparently has never been able to adequately replace them. Reportedly, the training department has been unable to train sufficient replacement operators and the MUNI Human Resources division has been unable to process or hire sufficient qualified replacements. Service to the public has suffered greatly.

In 1993, the voters enacted Proposition M, which established the Public Transportation Commission, to manage MUNI, separating the functions of MUNI from the PUC. Proposition M was *also* placed on the ballot by the Board of Supervisors. Following its separation from the PUC, MUNI was left with fewer qualified, experienced personnel and, in some cases, lost much-needed equipment,

including computers. A number of more experienced personnel chose to stay with the PUC. Apparently, there was a lack of preplanning of the separation. Inadequate supervision by high level MUNI management contributed to a major disaster.

FINDINGS

The Board of Supervisors placed the Early Service Retirement referendum on the ballot in 1991, but apparently took insufficient steps to protect MUNI from loss of a large number of experienced employees. Insufficient measures were provided to be certain that new employees could be hired and trained to take the place of those who seized the early retirement opportunity.

Again, in 1993, the Board of Supervisors placed a measure, Proposition M, on the ballot without ensuring that MUNI would be protected during its separation from the PUC. Certain functions of MUNI, especially its Human Resources operations, were especially impacted. The Human Resources operations have not yet recovered from this event.

RECOMMENDATION

The operations of MUNI should be separated from the political process as much as possible. MUNI should be run by professionals, especially those with significant transit experience, not by politicians. MUNI must have management capable of anticipating, meeting and overcoming major changes imposed by laws enacted by the Board of Supervisors or the electorate.

INADEQUATE FUNDING OF MUNI

MUNI has been underfunded for many years. Mayor Brown expressed the opinion that it has been underfunded since its inception, decades ago.

In November, 1995, Harvey Rose, the Budget Analyst, submitted a report entitled "Analysis of Potential Dedicated Funding Sources For The Municipal Railway (MUNI)", to the Board of Supervisors. (Appendix A)

Mr. Rose stated that one or more of the following steps would have to be taken in order to adequately fund MUNI:

"Increase the General Fund contributions to MUNI;
Implement fare increases;
reduce operating expenses through reductions in service and/or new labor contracts; and/or
Implement new revenue sources."

Mr. Rose examined the following potential funding sources:

"Sales Tax Increase Dedicated to Transit
Increase in Proportion of BART Sales Tax Allocated to MUNI
Vehicle License and Vehicle Registration Fee Surcharges
Downtown Assessment District
Citywide Assessment District
Bay Bridge Toll Increase
County or Regional Gas Tax
Dedication of Possible Airport Payback to MUNI
MUNI Fare Increases"

Mr. Rose set forth the source of MUNI's operating funds for Fiscal Year 1995-1996.

<u>Source of Operating Funds</u>	<u>Amount for FY 1995-1996</u>	<u>Percent of Total Operating Budget</u>
City General Fund	\$35,611,000	12.7
Parking Fines/Meter Revenues	76,955,000	27.4
Fare Revenues (with Paratransit)	91,479,000	32.6
Proposition B Sales Tax Revenues	4,477,000	1.6
Hetch Hetchy Transfer	7,730,000	2.7
Advertising and Miscellaneous	3,617,000	1.3
Transit Impact Development Fee	4,637,000	1.7
State and Regional Subsidies	50,990,000	18.1
Federal Operating Subsidies	5,322,000	1.9
Total Operating Budget	\$289,818,000	100.0

In his report, *four years ago*, Mr. Rose projected MUNI deficits over a ten-year period, extending from fiscal year 1996 - 1997 through 2005 - 2006. The projected deficits foretold an ominous future in which MUNI could not be expected to survive without extraordinary measures by the Mayor(s) and the Board of Supervisors.

<u>Fiscal Year</u>	<u>Projected Operating Deficits If General Fund Contribution Increases 3.5% Annually</u>	<u>Projected Operating Deficits if General Fund Contribution Eliminated</u>
FY 1996-97	\$7,159,000	\$44,017,000
FY 1997-98	13,554,000	51,701,000
FY 1998-99	20,202,000	59,685,000

FY 1999-00	27,244,000	68,109,000
FY 2000-01	33,722,000	76,017,000
FY 2001-02	40,397,000	84,172,000
FY 2002-03	46,526,000	91,834,000
FY 2003-04	52,873,000	99,766,000
FY 2004-05	59,333,000	107,867,000
FY 2005-06	66,046,000	116,279,000

Thus, four years ago, the Board of Supervisors and the Mayor were acutely aware of the pending massive deficits which MUNI could expect if they did not take bold steps to provide new sources of financing for the transit system. In Fiscal Year 1995-1996, MUNI was provided funding of \$289,818,000. In Fiscal Year 1996-97 MUNI was provided an original appropriation of \$287,067,000 and a supplemental appropriation of \$3,387,529 or a total of \$290,454,529. In 1997-98 MUNI received \$302,024,780. In 1998-99 it received an initial appropriation of \$333,721,667 and a supplemental appropriation of \$14,784,305 for a total of \$348,505,972.

Since Mayor Brown took office, a little over three years ago, funding of MUNI has increased somewhat in the last two years. Michael Burns advised the Grand Jury that Mayor Brown promised an additional \$15,000,000 to MUNI as a part of the 1999-2000 MUNI budget. Mr. Burns intends to use a portion of those added funds to hire approximately 30 more mechanics and service workers, 5 new employees to work in Human Resources and to expand the space available to Central Control.

According to the Controller, MUNI needs a very large source of *dedicated* funding. A dedicated source of funding means, of necessity, funding which cannot be diverted by the Board of Supervisors to some other use.

The Grand Jury has not attempted an over-all analysis of MUNI's current funding. However, one of its members researched the sufficiency of funding for the narrow purpose of proper maintenance of MUNI's vehicles over a number of years. In particular, inquiries were made at each of the yards as to the number of mechanics available over a given time span. Some of the yards were unable to provide the information needed for the inquiry; however analysis of information from those yards which did provide data shows a steady decline in the number of mechanics available to service vehicles between 1987 and 1997.

Muni's Method of Determining Ridership

Muni has two inter-related procedures to determine the number of riders using its system. Every eight years or so, it analyzes each line on a rotating basis, to establish a baseline. Monitors spread out over the entire route of a chosen line and record the number of riders on each vehicle at each stop. This method is very labor intensive and Muni lacks the staff to repeat the procedures every year for each line.

Additionally, on an annual basis, monitors check each line, at a strategic stop, to determine the annual variance from the baseline number. MUNI assumes that the variation at the strategic stop will be proportional to the variation at each stop along the line, thus determining the change in ridership for the line, for the year. The changes in ridership on each line are thus calculated on an annual basis until, approximately eight years later, a new baseline determination is made for the line.¹ The main application of those results is for submission to the United States government, as may be required.

¹All 81 MUNI lines carry an average of 8,430 riders per line per day. For 1995-1996 MUNI made baseline determinations on 10 lines, which averaged 5,780 passengers per day. In 1996-1997, MUNI made baseline determinations on 5 lines, which averaged 22,648 riders per day. Thus, in two years, MUNI performed baseline determinations on 1/4 of its total average daily ridership of 690,000. At that rate, all MUNI lines would receive baseline determinations every eight years.

Decline in Ridership

There was a steady decrease in the number of riders using MUNI from 1992 to 1997. (1997 was the last year for which data were provided to the Grand Jury.) See Figure 1 in Appendix B. As Figure 1 demonstrates, the major drop in ridership on MUNI occurred at the same time as the initial shortfall in MUNI's funding, relative to the Consumer Price Index, which is a measure of inflation. While the CPI varied from about three to four percent a year, in 1993 -1994, funds available to MUNI were increased by only approximately 1 percent. Therefore, MUNI's budget was, in terms of real dollars, *decreased by the Board of Supervisors and the Mayor, Frank Jordan*. In fact, MUNI's expenditures fell below the CPI for every year from 1991 to 1996 inclusive, *even though the Budget Analyst had warned the Board of Supervisors and the Mayor of impending massive deficits*. The cumulative shortfall in MUNI's expenditures from 1988 to 1997 is calculated to be \$71,300,000. That money was unavailable for spare parts or employee wages. As a result of the reduction in financing of MUNI, relative to the CPI there was thus reduced maintenance and, therefore, reduced service. Although those in City government reduced MUNI's funding, they still demanded the same extensive transit service as before the budget cuts.

It is proper to note that, although funding of MUNI decreased during the mayoral terms of Dianne Feinstein, Art Agnos and Frank Jordan, there has been some increase in funding under Mayor Brown, especially in the latter part of his term, when there was great criticism of the operations of MUNI. Mayor Brown has approved increased funding and initiated other efforts to improve MUNI, such as establishing the New MUNI Task Force and the MUNI Council. The funding is still far below MUNI's needs, as the Mayor acknowledges.

Reduced Funding Of MUNI Has Resulted In Reduced Mechanic Staffing

Mechanic staffing at MUNI yards has declined since at least 1987. The reductions for mechanic

staffing at the Presidio trolley yard and the Flynn motor coach yard are shown on Figure 2 in Appendix B. The heavy dashed line indicates the general downward trend. The major decline in mechanic staffing is shown to be in Running Repair. Running Repair is the service group which handles more minor repairs, which can be performed in a short time and thereby allow vehicles to return to the street without undue delay. A shortage of staffing in Running Repair can have a severe impact on MUNI's operations.. The Running Repair staffing was reduced by 30% over a period of about 10 years, while mechanic staffing at the Presidio trolley yard was reduced by 17%. As Figure 1 shows, the funding provided by the Board of Supervisors and a succession of mayors corresponded with the decline in the number of mechanics on duty. Over the same period of years, the ability of MUNI to maintain service in accordance with its schedules deteriorated until, finally, MUNI advised the public not to expect MUNI to meet its prior schedules.²

MUNI's Facilities Have Also Suffered From Reduced Funding

While it is abundantly clear that funding for day-to-day MUNI operations has been extremely deficient, it is less obvious, but even more true, that funding for maintenance of facilities and long term expenditures has been neglected to an even greater extent than for the day-to-day operations. For example, Mr. Cruz mentioned that "there are \$1,000,000 worth of leaks at Forest Hill Station," referring to its accumulation of deferred maintenance. Inspection of the facilities at the Presidio Yard, and others indicates that the Forest Hill Station problem is not unique. Michael Burns commented to the Grand Jury on the deplorable condition of MUNI's facilities.

²The accuracy of the determination of staffing levels is subject to some error. Not all MUNI yards were able to provide the needed information. Also, the data received is subject to undercounting or over counting because the numbers were manually derived from time sheets. There is no consistent method in MUNI for reporting. In general, supervisors were not counted in the calculations. However, in some cases the time of supervisors was recorded on the shifts which they supervised. This makes statistical analysis more difficult. The problem would not exist if reporting was consistent and time records were computerized.

Inspection of facilities also revealed that they all lack necessary space to permit employees to carry out their duties efficiently. At night, when MUNI vehicles return to their yards, there is insufficient space to park them, and still have room for mechanics and other maintenance personnel to easily move vehicles and work on them. Many man-hours are wasted moving vehicles to allow ordinary work to proceed; man-hours that represent a waste of taxpayers' money. Yet, the Grand Jury was advised by Mayor Brown that there is no move afoot to increase the capacity of these facilities.

Michael Burns advised the Grand Jury that there are, in fact, two planned facilities that may offer some relief. A new yard is planned to support the new Third Street Line light rail vehicles and related maintenance functions. MUNI hopes to make it larger than will be needed to service the vehicles serving the Third Street Line so that it may alleviate the crush at the Green facility. MUNI also plans to build a new facility at Islais Creek to replace the Kirkland facility. MUNI hopes to make that facility large enough to ease the burden on the Woods diesel bus facility. There are, however, no present plans to add another facility to accommodate overcrowding at the two trolley yards. Mr Burns advises that overcrowding at the Presidio Avenue facility is particularly severe.

Everyone interviewed, including Mayor Brown, advised the Grand Jury that MUNI needs an ample source of revenue it can count on, year in and year out. That source must be independent of the City's General Fund, which is subject to the demands of all City departments. To the extent that MUNI is dependent on the General Fund for its financing, it is subject to the political process and cannot plan its own destiny. Because MUNI does not have, and has never had, a sufficient, fixed revenue source, and has often been denied funds necessary to maintain proper service, when funds are received, they are applied where most needed to prevent some current catastrophe. Deferred maintenance continues to accumulate and seemingly is never addressed. MUNI always operates on an emergency, band-aid basis, as if it is held together with baling wire.

FINDINGS

MUNI needs a guaranteed, annual source of funding, which is not subject to the whims of the local

political process. MUNI needs the ability to raise funds by assessment or other guaranteed sources so that it need not compete with other City Departments for a share of monies available in the General Fund.

RECOMMENDATIONS

The Grand Jury believes that MUNI should become an independent agency, either within the government of the City, or independent of the City, with separate funding sources and the ability to raise its own tax revenues. Ideally, *no portion* of MUNI's funding would be dependent on the General Fund.

DEFICIENCIES OF MUNI'S HUMAN RESOURCES

Whenever the Grand Jury met with employees of MUNI to learn what problems might exist in MUNI facilities or operations, a familiar theme recurred. While each MUNI division faces its own individual problems, in each instance those contacted cited the continuing failure of MUNI's Human Resources (Public Transportation Department Human Resources or PTD HR) to do its job as the source of many of its problems. Many MUNI employees are simply resigned to the fact that the PTD HR cannot fulfill its role of providing sufficient, competent employees in a timely manner. The Civil Service system must bear its share of the blame. Arcane, cumbersome regulations seem to predetermine that MUNI will always be unable to resolve its personnel disaster. No one interviewed was able to explain why the Board of Supervisors, or a succession of Mayors, have been unable to rectify these problems and streamline applicable regulations. However, other City departments labor under many of the same regulations and serve the public in a more satisfactory manner.

The Grand Jury learned that the PTD HR operates separately from the Human Resources office for the City in many respects. Apparently the Equal Employment Opportunity functions of the PTD HR are also separated, and Labor Relations is severed from personnel operations. It appears that this decentralization of administrative functions may be very inefficient. It is not clear why this

decentralization exists or what benefit it serves.

The Grand Jury was advised that the Human Resources functions at MUNI operated in a more efficient manner in the early 1990s, although there was no verification of that fact. At that time MUNI was part of the Public Utilities Commission. Andrea Gourdine, the director of the City HRD, advised the Grand Jury that, prior to 1995, the MUNI personnel operation was more satisfactory than it is today. However, as noted above, in 1995, as a result of a City and County referendum measure approved by the voters, MUNI was separated from the PUC. It is not clear why the Supervisors, who placed the measure on the ballot by a 6 to 4 vote, thought such a realignment would benefit the City. In fact, the separation caused severe problems for the operation of MUNI. The impact on MUNI Human Resources was particularly traumatic. The more experienced personnel stayed with the PUC, and there was insufficient preparation for those who remained in charge of the operation at MUNI.

While needed PUC operation used computer equipment and a Local Area Network (LAN), until very recently PTD HR personnel were keeping records manually, and had no access to a LAN. The result is that PTD HR has no effective position control. At any particular time, PTD HR does not know the status of the 3600 positions at MUNI.

Without the equipment, PTD HR staff is also unable to interface with the City HRD to take advantage of the information on various employee categories, as do other City Departments that are better equipped.

While drafting this report, improvements have been made and all but 3 of the 32 staff members of PTD HR now have personal computers. Three more computers are on order and software to enable better operation is now being tested. The group has moved from its cramped Presidio offices to 401 Van Ness Avenue. With assistance, PTD HR has pieced together software to aid in establishing position control. Use of this software is a temporary measure pending installation of software being developed and installed by the City's HRD.

The City's Department of Human Resources is installing and testing a new software program, licensed from PeopleSoft, a company which creates and licenses an array of applications. The City has licensed a portion of the available programs, including the Benefits Administration and the Human Resources Management System (HMRS) modules. These programs are currently being tested to determine how they may best serve the City's needs. A "fit/gap analysis" will determine the degree to which the licensed software fits with the City's needs and to what extent the software should be modified to meet the City's requirements.

The City signed agreements with PeopleSoft on July 1, 1998. The implementation of the programs appears to be proceeding as planned, except that a proposed contract for systems integrator services related to conducting the fit/gap analysis was not finalized. Instead, the City entered into an agreement with BIT (Business Information Technologies) to perform that analysis.

It is expected that, once HRD has the PeopleSoft programs tested and up and running, PTD HR will be able to be connected to the system and enjoy its benefits. The program should provide a work flow management ability and enable MUNI to expedite job requisitions, submissions review and approval on an expedited basis.

The Grand Jury was advised that the HRD staff is in drastic need of training. Proper personnel procedures must be established. Severe overhaul of staff is required. In many cases, replacements are drastically needed. At present, some of the HRD functions are being handled by personnel temporarily assigned from other departments. Cindy Monroe is the newly appointed head of the PTD HR. She was appointed to her position only three weeks before she was first interviewed by the Grand Jury and was in the process of prioritizing the problems and taking first steps to try to effect a turnaround. She is being assisted by Andrea Gourdine, who heads the City HRD.

One of the major problems encountered in hiring new employees has been the practice of hiring provisional employees rather than permanent employees. Provisional employees can be hired without being on a civil service list and without going through a testing procedure. However, provisional

employees lack many of the long term benefits enjoyed by permanent employees. Also, because provisional employees can be replaced by permanent employees and have a shorter tenure, hiring provisional employees is false economy and, in the long run, is more time-consuming.

Cindy Monroe and Andrea Gourdine have both adopted a policy of emphasizing hiring of permanent employees. This policy requires formulating tests, giving the tests and establishing hiring lists. PTD HR has been woefully deficient in this regard. Cindy Monroe has advised the Grand Jury that exams are being given and that ten new lists for automobile mechanics and body workers will be out by June 30, 1999. She advises that during fiscal 1998-1999, twenty five new lists have been created. These lists will be valid for two years.

PTD HR is seeking to streamline the requisition process to speed hiring.

Recently, at the direction of the General Manager, and responsive to the demands of the public, MUNI has emphasized the hiring and training of operators. That process is nearing fruition. It is hoped that the hiring of mechanics, body workers and other service personnel will be addressed soon.

The Grand Jury found Cindy Monroe and Andrea Gourdine to have many good ideas for revamping the PTD HR operation. However, any success will depend on proper financing and other support from the Board of Supervisors and the Mayor. PTD HR needs proper equipment, proper training, proper staffing and the time to carry out its job.

Additionally, the Grand Jury learned that, in the past, PTD HR has been totally deficient in handling discipline. While a disciplinary procedure exists, it has simply not been used, perhaps due to the lack of proper leadership.

FINDINGS

The operations of the PTD HR appear to be so outdated, unorganized and dysfunctional, that they

hamper every other aspect of MUNI operations. The cumbersome Civil Service rules for hiring and placement of new employees adversely affect all MUNI divisions. Work rules imposed on MUNI through collective bargaining with its unions hamper the efficient operation of the system. While current efforts are being made to remedy the problems, the Grand Jury believes that the issues are so global that PTD HR lacks the resources and expertise to successfully complete the task. Very recent efforts at modernizing the operations of PTD HR and benefitting from cooperation with the City's HRD are encouraging.

RECOMMENDATIONS

The Equal Employment Opportunity and the Labor Relations functions of MUNI should be consolidated under a single director.

MUNI should seek outside, expert assistance to reshape PTD HR and revamp its Civil Service rules: To the extent necessary, the Mayor and the Board of Supervisors should seek voter approval of amendments to the Civil Service rules and other ordinances or charter provisions which impede MUNI's ability to hire, place, discipline, and fire employees in a reasonable manner.

MUNI should continue to negotiate improvement of the terms of the collective bargaining agreements with its unions to enhance its ability to hire, place, discipline, and fire its employees. While some progress has been made under the current administration, it is not enough.

The Mayor and Board of Supervisors should provide whatever funding is necessary to properly staff PTD HR and provide it with the necessary equipment and software to perform its assigned functions.

MUNI AND ITS UNIONS

The Grand Jury met with representatives of the Transport Workers Union, Local 250A, including the president of the local, Raymond Antonio, to learn the union's position on MUNI's problems and its recommendations. Mr. Antonio seemed deeply concerned with the current problems. The union is troubled by the severe lack of street supervisors, which prevents MUNI from keeping any real schedule. The lack of a proper schedule, which operators can adhere to, is one of the major causes of public discontent. In turn, public dissatisfaction with MUNI's operations has had an adverse impact on employee morale. While the lack of street supervisors is not the only cause of MUNI's inability to maintain a proper schedule, it is a major factor. Lack of sufficient, properly maintained, operating vehicles, sufficient operators and internal procedures also impact the ability to maintain a proper schedule. The union believes that schedules devised by MUNI are not properly prepared in light of existing traffic conditions. Mr. Burns is also concerned that MUNI operate pursuant to a realistic schedule.

The Grand Jury's investigations revealed a popularly held belief that MUNI is dominated by its unions. This belief appears to be justified. MUNI's work rules hinder its proper operation. Its unions assert control into areas which normally are not the proper province of labor unions. For example, its unions not only influence matters relating to wage levels, safety, working hours and the like, they also have a say in MUNI scheduling, an area which should be the concern of management. The unions asserted their influence in the selection of the new General Manager of MUNI, whereas that should be solely the province of the City.

MUNI also suffers from an extremely high absentee rate. Work rules contributing to a high degree of absenteeism are imbedded in agreements with the unions (although some improvement of those rules has recently occurred.) The problem has existed for many years, and a succession of administrations have confronted it inadequately. The resulting cost to the City is high and the operation of MUNI vehicles suffers significantly.

The City is hampered in its negotiations with the unions because those negotiating on the City's behalf are politicians who, at election time, must seek the endorsement of the unions with which they negotiate. Clearly the bargaining position of the City is compromised in such negotiations. The City lacks the ability to be tough and to risk alienating the unions.

At a time when the City is struggling to solve its transportation problems, the Grand Jury was most disturbed to find that union members were opposing the efforts of those trying to obtain signatures to place a proposed initiative measure on the ballot to revamp MUNI.

FINDING

MUNI is currently unable to adequately negotiate with its unions. MUNI will never achieve reasonable, practical work rules with its unions until it is represented by negotiators who are not politically dependent on the good will of those unions.

RECOMMENDATION

MUNI needs to be governed by an independent agency, preferably one which is headed by personnel not appointed by the Mayor or the Board of Supervisors. It should not be subject to the political whims or control of either.

THE MUNI CAPITAL ACQUISITION PROGRAM

The Grand Jury investigated MUNI's lack of a well formulated capital acquisition program. MUNI has no established long term plan for replacement of vehicles, replacing them only in a crisis mode. Rather than replace 20% of the buses every five years, as Mr. Cruz recommends (and as MUNI service employees state is a reasonable and necessary method), MUNI drives its vehicles to destruction and then replaces large sections of the fleet at one time, usually when Federal financial subsidies are available. The result of the lack of a proper and on-going capital acquisition program is that (1) all

vehicles tend to wear out at the same time, stressing the maintenance staff and demanding use of unreliable vehicles, (2) major components such as engines and transmissions, tend to need overhaul or replacement at the same time, again stressing the maintenance staff, and (3) demands on sources of capital funding occur at one time, making financing more difficult to obtain. Staggered acquisition of equipment also enables training of operators and maintenance staff to be carried out in a smoother, more efficient manner. These problems have continued through a succession of Mayors and Boards of Supervisors, yet all have failed to successfully address them.

Mr. Burns advised the Grand Jury that replacement of buses and trolleys on a rotating basis makes a great deal of sense. He believes that replacement of about ten percent of the fleet each year would be appropriate. However, he stated that it is more cost effective to purchase rail vehicles in larger numbers because of the large engineering costs and other costs related to acquisition of rail cars which must be paid, whether the system purchases a few or a large number of cars.

Mr. Burns, on joining MUNI, was amazed at the poor condition of the vehicles (and the physical facilities.)

FINDING

MUNI has no proper capital acquisition program. The practice of driving vehicles far beyond their useful lives is not cost effective and results in excessive maintenance costs. Buses and trolleys should be replaced on a periodic basis, using information gathered from a proper vehicle maintenance system.

RECOMMENDATION

Creation of an independent agency to operate MUNI would remove capital acquisitions from the political process.

It is essential that MUNI establish, and follow, an effective capital acquisition program, based on a proper vehicle maintenance system which tracks all repairs made to each vehicle together with all costs of repairs and maintenance, and a sound preventative maintenance system.

INADEQUATE WORKING FACILITIES

FINDINGS

MUNI offices are cramped, generally without proper computerization. Facilities are dingy, poorly laid out and lack sufficient space for proper storage of records and materials. Premises are uninviting. Their poor condition is hardly likely to improve employee morale or productivity. In many cases, better working conditions are deemed vital to the success of MUNI. There has been a recent transfer of some groups to improved temporary quarters at 401 Van Ness Avenue. However, further improvement in this area is critical.

MUNI's Central Control represents an excellent example of the inadequacy of MUNI's facilities. The Central Control facilities are located underground, near the West Portal Station. There is insufficient space for storage of materials; employees must work in overcrowded stations, bereft of proper functional design. The conditions are cramped and claustrophobic, with little effort to provide a comfortable working atmosphere. Apparently there are plans to expand this facility in the near future, and to move it in a few years. Expansion and redesign cannot come too soon.

The offices at each of the yards are antiquated, small and inefficient. Offices at the Presidio yard are an example of this problem and are hopefully destined for early replacement.

RECOMMENDATIONS

Central Control serves a vital function in the operations of MUNI. MUNI's Central Control must be expanded and should be redesigned, with an effort to make it functional and to provide an efficient,

pleasant atmosphere for its employees. Sufficient storage space must be provided to eliminate the ubiquitous clutter. MUNI should seek professional assistance in the design of an efficient proper facility.

Other MUNI offices and facilities need to be modernized, expanded and redesigned. Additional space must be provided at most of the yards so that maintenance work may be performed efficiently at night, when all of the vehicles are parked in the yards.

MUNI'S PREVENTATIVE MAINTENANCE PROGRAM

Fifteen years ago MUNI devised a computer system for keeping track of its preventative maintenance, daily work orders, breakdowns and periodic maintenance. It was designed to service the needs of all of the major MUNI modes of transit (light rail, diesel bus, trolley and cable car), but maintenance employees in all divisions complain that it does not serve their needs adequately. The Vehicle Maintenance System (VMS) cannot be run on a personal computer. The employees maintain that a new, personal computer based, system could be designed and implemented inexpensively, allowing for the proper tracking of maintenance records and requirements.

At present, most of the records for tracking of maintenance work on vehicles are handwritten on forms in triplicate. One copy is deposited in a binder labeled with the applicable vehicle number. One copy is forwarded for inputting into VMS by highly paid personnel. Apparently the system is too complicated to permit inputting by clerks.

The Grand Jury was advised that when a mechanic needs to determine the history of a breakdown, he must review all handwritten notes in the binder relating to the particular vehicle. The notes are not always in chronological order. The process can, therefore, be very time-consuming, leaving less time for the mechanic to perform his assigned work and delaying return of vehicles to service.

At each yard, the Grand Jury attempted to determine whether it is possible to track the *costs* of maintaining a particular vehicle over the period of a year. It learned that it is possible, though difficult, and time-consuming, to *generally* determine the *nature* of the work performed on a vehicle. However, there are no records setting forth the cost of the maintenance, either for labor or replacement parts. There is no effective inventory control. In effect, the cost of repairing and servicing a vehicle is not reflected in the maintenance records. Therefore, MUNI is unable, at any given time, to evaluate which vehicles need to be replaced based on excessive cost of maintenance and repetition of breakdowns. The most effective means of tracking troubled vehicles is the experience and memories of mechanics, but they cannot know the costs involved in repeated repairs.

On a visit to a yard, the Grand Jury observed the results of MUNI's lack of inventory control. A mechanic was working on a vehicle. When asked for the work order, he advised that there was none. He stated that it would be prepared later. (A work order should be completed *before* the work is performed). When the worker needed a part, he did not request one from the storekeeper. Instead, he asked another mechanic for a part taken from another job. It seems to be common procedure for mechanics to hoard parts, particularly for use during graveyard and swing shifts, when storekeepers are not on duty. As a result, it is impossible to track parts used for maintenance and repair of particular vehicles. No proper accounting is kept of parts used.

Even when storekeepers are on duty, inexplicably, they do not report to the yard superintendent. The superintendent therefore cannot maintain accountability for parts used.

In some yards, the superintendent has the keys to the tool crib at night, when no storekeeper is on duty. It is common practice to loan out keys to the tool crib to mechanics when the yard superintendent is too busy to distribute parts. All of these practices prevent proper accountability.

Mr. Burns advised the Grand Jury that he initiated installation of a computerized vehicle maintenance system at Boston and at Philadelphia, which integrated a number of functions. In Philadelphia, a larger system than MUNI, it is estimated that when the system is fully operational, it will save the transit

authority \$6,000,000 a year.

FINDING

MUNI's preventative maintenance system is not cost effective. Its Vehicle Maintenance System should be replaced by a modern, properly designed system which will meet all of MUNI's maintenance needs. It is vital to track the costs associated with all maintenance and repair of vehicles to permit proper planning for replacement of vehicles. The system should be designed so that mechanics and other service workers can input data.

RECOMMENDATION

A personal computer software system should be designed for use in all yards and on all vehicles. It should use a Cost Classification number to keep track of all preventative maintenance, regular maintenance, and repairs including all costs pertaining to each vehicle. With that system, MUNI could determine whether a vehicle should be scrapped or whether it is cost effective to continue maintaining it. All spare or replacement parts used should be tracked and the system should serve as an inventory control to alert the purchasing department of the need to reorder parts.

The system should be capable of tracking all information necessary for maintaining and enforcing warranties on all parts and vehicles. It should alert management when warranties are due to expire so that enforcement procedures may be scheduled and pursued.

While such a system should not be difficult to create, sufficient prior input should be elicited from those who will actually use the system. It should adequately address the needs of service and maintenance personnel and allow them to run a well ordered shop.

MUNI should consult with other transit agencies to determine what systems are in use elsewhere. It would be a great mistake for MUNI to attempt to reinvent the wheel and design a new system from the

ground up. MUNI should look to successful systems and adopt proven methods.

To permit better tracking of parts, storekeepers should be on duty at all times that maintenance and service work is performed. Storekeepers should report to the yard superintendent. No parts should be taken from the tool crib without accurate recordation. Whatever system is finally adopted, it must be a system where there is a clear chain of accountability.

MUNI should work with the City Attorney to establish a system for the tracking and enforcement of warranties on vehicles, and other major purchases, so that the City Attorney is alerted in a timely manner to permit enforcement of warranties.

THE MUNI TUNNEL AND ITS PROBLEMS

Current public disapproval of MUNI has been nurtured by repeated problems encountered in installing and operating MUNI LRVs in the main tunnel from West Portal to the Embarcadero Station. The inability of the new computer software to control operations of vehicles while in the tunnel is well publicized and remedial efforts have been ongoing for some time. Because the situation is in a state of flux and many of the problems may be resolved when the entire fleet of new Breda cars is operational and noncommunicating Boeing cars have been retired or limited in use outside of the tunnel, this report will not comment extensively on that problem. Nor will this report address the decision of the Mayor and the Board of Supervisors to employ Booz-Allen as the city's consultant to help solve this problem. The Grand Jury does note, however, that the Budget Analyst has publicly indicated that employing Booz-Allen on lucrative terms may have been premature and ill-advised and that the tunnel problems will probably resolve themselves as the Breda cars are incorporated into the system. Apparently Mr. Cruz reached the same conclusion. Although Harvey Rose was publicly criticized by the Mayor and others for his remarks about the Booz-Allen contract, he repeated that opinion before the Grand Jury. The Grand Jury further notes that Booz-Allen was consultant to MUNI at the time that the computer problems arose (although it may be that the problems were not the fault of Booz-Allen.) There apparently was no attempt by the Mayor to find another consultant or put the contract out for

competitive bidding. Perhaps this decision was driven by the fact that Booz-Allen was already familiar with the flawed system, whether or not it has any responsibility for that condition.

Mr. Burns advised the Grand Jury that, in the short time he has been with MUNI, there have not been many problems with the MUNI Metro Tunnel. However, he advised that the system still suffers from a design failure which MUNI is trying to correct. The system was not provided with the capability of recovering quickly following a stoppage of service. A relatively minor problem can cause the system to shut down and there is no way to quickly restart it.

Mr. Burns feels that Booz-Allen is doing a satisfactory job. In some cases, Booz-Allen is forcing MUNI to take steps it has been reluctant to take, which, at times, prove to be beneficial to the system.

RECOMMENDATION

The 1999-2000 Civil Grand Jury should monitor the progress of the Booz-Allen contract and resolution of the problems encountered in phasing in the new Breda cars, the operation of the Automatic Tracking System and the performance and payment of Booz-Allen. It should evaluate whether the Mayor was correct in letting the contract to Booz-Allen without competitive bidding.

THE NEW MUNI TASK FORCE

The Grand Jury met with a representative of the New MUNI Task Force, which was appointed by Mayor Brown to assist him and the Board of Supervisors in seeking innovative and forceful approaches to solving the mess at MUNI. The efforts of the Task Force and its recommendations are impressive. The Task Force was designed to consist of thirty members, but finally consisted of twenty seven, a number which appears to be so large as to be unworkable. Apparently that was not the case. Happily, the large number of members enabled the Task Force to address the interests and concerns of many areas of the community.

The group consisted of some experts in transportation, representatives from labor, and others who contributed useful experience and skills. The Task Force broke down into various committees and met frequently. Ultimately it produced a report, which it presented to the Mayor entitled “A Plan To Fix MUNI” (Appendix C). When asked by the Grand Jury whether he approved of the Plan, the Mayor would not respond directly, but simply said that the Plan was to be referred to the Board of Supervisors. At the same time, a public group called “Rescue MUNI” drafted a plan for solving the MUNI crisis, which it intends to place on the ballot. Efforts are currently under way to resolve the differences between the two plans, with the hope that only one, mutually agreeable to all interested parties, will be placed on the ballot for voter approval.

The Task Force considered four options:

1. Maintaining MUNI as a City Department, as it is now;
2. A City Department to control policy, with MUNI to be operated by a non-profit organization;
3. A Municipal Transit Agency; and
4. An independent transit district.

Under Option 3, creation of the Municipal Transit Agency, which is recommended by both the Task Force and Rescue MUNI, the Report states that it “would provide more autonomy and managerial scope than the present City department (Option 1), but less independence than a completely separate transit district (see Option 4 below.)” The Mayor would appoint the Agency’s seven board members and their appointment would be confirmed by the Board of Supervisors. They could be removed by a concurrence of the Mayor and two-thirds of the Board of Supervisors. The Mayor and the Board of Supervisors would appoint a Community Advisory Committee.

Option 4 would create an Independent Transit District, analogous to BART, the San Mateo Transit District or the Golden Gate Bridge District. It would be created by state legislation. The Task Force Plan does not state how the directors of such a district would be chosen.

Under the Rescue Muni Plan, the Agency Board would also be appointed by the Mayor and the Board of Supervisors, but directors could only be removed for cause.

The Task Force proposes that the new Agency would merge with the City's Department of Parking and Traffic three years after its creation. Its plan would set specific goals which the Agency would be expected to meet three to five years after its creation. The Agency would honor Transit First provisions, placing the needs of public transportation over the needs of private vehicles.

The Task Force plan would empower the Board of Directors of the Agency to develop and negotiate with the union(s) to establish principles for merit pay and employee incentives, based on achieving service and performance goals. It would also establish a Community Advisory Council of representative citizens and handicapped persons.

Certain issues separate the two groups. First, Rescue MUNI wants the merger of the Agency and the Department of Parking and Traffic to occur at the outset. The Task Force wants the merger of the two functions to wait for a period of three years, allowing the Director of the Agency time to launch it and resurrect MUNI from its present morass.

The merit pay and incentive issue is a thorny one. While it is not clear from the proposed ordinance, apparently payments for merit pay under the Rescue MUNI plan are to be authorized only on a group basis, not on an individual basis. There is also a difference of opinion as to whether union work rules should be written into the legislation or to be negotiated between the union(s) and the new Board. Rescue MUNI favors writing the union work rules into the legislation, while the Task Force favors negotiation by the unions and the Board. Under either scheme, union work rules will no longer be directly negotiated between the union and elected officials who depend on union support for their reelection.

Both groups agree that there must be service and performance standards, but there is disagreement as to whether the standards should be written into the legislation, set forth as objectives to be negotiated

or be adopted by ordinance.

Finally, the two groups differ on how to further Transit First policies. The Task Force believes that the policies should be developed by the Board of Supervisors.

FINDINGS

The Grand Jury agrees that MUNI should become a separate, independent agency, as recommended by the Task Force and Rescue MUNI. The Grand Jury prefers Option Four, not Option Three, in the Task Force Report. Option Four would create a truly independent Agency, allowing the Agency to be further insulated from the politically motivated Board of Supervisors and the Mayor. Apparently the members of the Task Force also believe that Option Four would be preferable, but believe that it is not politically attainable. The Task Force suggests that establishment of a truly independent agency would also raise certain funding complexities.

Both plans represent a substantial improvement over the present system. Failure to adopt some plan at this point will probably ensure a continuation of mediocre to bad transit in San Francisco. Removing the Board of Supervisors and the Mayor from the operations of MUNI is the first (and only the first) step in resolving the problem.³

Whatever system is adopted, it should not be a system involving divided authority. All authority should rest with the new Agency.

³After this report was finalized, the Board of Supervisors adopted a proposed ballot measure which constitutes a compromise between the Rescue Muni group and those favoring the recommendations of the New MUNI Task Force. The Grand Jury has not reviewed the details of the compromise proposal and this report will not address its particulars. However, the Grand Jury is pleased to learn that the Board of Supervisors has at last taken positive action to address the problems of MUNI.

RECOMMENDATIONS

MUNI should be removed from operation as a Department of the City. It should become a separate agency, not answerable to the Mayor or the Board of Supervisors.

It should be granted the greatest autonomy possible.

To the extent that the recommendations of the Task Force differ from those of Rescue MUNI, the Grand Jury recommends that the proposals offered by the Task Force be adopted. It seems reasonable to wait for two or three years before merging the operations of the Department of Parking and Traffic into the operations of MUNI. The new director of the Agency will have his hands full launching the new entity. It seems unnecessary to add to his startup problems.

The Grand Jury favors individual merit pay, but is wary of an effort to establish fixed goals which, if met, could cost the City immense sums. If merit pay is to be provided, the Board of Directors of the Agency and the General Manager should establish the procedure. Merit pay and incentives should not be part of the established in the law creating the Agency.

SAFETY AND SECURITY

It is important that MUNI make a commitment to safety. While the Grand Jury did not concentrate on the question of safety during its inspection, in many facilities open, obvious safety hazards were encountered. The Grand Jury also became aware of MUNI's inability or lack of commitment to enforce safety rules.

The Grand Jury found little evidence of security measures at any MUNI facility.

1. DRIVER VEHICLE INSPECTIONS

Section 392.7 of the Federal Motor Carrier Safety Regulations requires that "no commercial

vehicle shall be driven unless the driver shall have satisfied himself/herself that the following parts and accessories are in good working order, nor shall any driver fail to use or make use of such parts and accessories when and as needed:

Service brakes, including trailer brake connections.

Parking (hand) brake.

Steering mechanism.

Lighting devices and reflectors.

Tires.

Horn.

Windshield wiper or wipers.

Rear-vision mirror or mirrors.

Coupling devices.”

The Grand Jury was advised that MUNI has regulations which mimic the Federal rules.

Operators are paid to conduct fifteen minute pre-departure safety checks each day before leaving the yard. Inquiries of supervisors, superintendents and others reveal that they believe that not all of the regulations requiring pre-departure inspections are complied with, in that many drivers do not conduct such inspections. Some believe that the better, more experienced drivers conduct inspections, realizing the benefits they provide in terms of maintenance and safety. Most who were interviewed expressed the belief that the safety regulations could not be enforced. Others believe that MUNI could enforce the requirement of pre-departure inspections if MUNI management really wanted the regulations enforced. Enforcement would require MUNI to provide inspectors to monitor inspections. The better view is that inspections should be monitored to ensure that they are actually performed by operators, *both before and after each run* and that accurate reports are filed to permit tracking of the condition of all vehicles.

FINDING

For the safety of the public and MUNI's vehicles and for improved performance of vehicles, it is important that *all* vehicles be inspected by operators, before leaving the yard and after each run. It is important that an inspection system be established and that MUNI receive proper staffing to enable the system to be implemented. An inspection system which lacks constant verification cannot be successful.

RECOMMENDATION

The Grand Jury recommends that MUNI establish a procedure whereby supervisors verify, daily, that drivers have in fact conducted vehicle inspections, both before and after their runs. Results of such verified inspections must be entered into a computer program which tracks the maintenance history of each MUNI vehicle.

2. SAFETY HAZARDS

The Grand Jury noted that most drums storing fluids are not properly grounded and that wires are often left lying on the ground. Often drums are not stored on double-containment pallets, as required. These hazards were particularly noted at the new Marin Avenue facility. At Marin Avenue, a Safety Shut-off Switch for a large double-contained concrete tank was located behind a column, accessible only by climbing over drums stored around the column.

Employees were found smoking inside shop areas, near possibly dangerous liquid chemicals. In one case a supervisor, when notified of such a problem, seemed unconcerned, replying that the offender was not a MUNI employee, but a contract employee working on a Breda car.

The Grand Jury frequently noted accumulations of dirty rags thrown into empty boxes rather than being stored in safe, enclosed containers. Old florescent tubes were seen discarded in open trash containers, instead of being crushed and disposed of safely.

At one location, the Grand Jury found an out-dated hazardous material certificate which was twenty-two months overdue.

FINDING

MUNI seems to lack a dedication towards safety in its yards.

RECOMMENDATION

Either MUNI or an independent agency should perform a study and take proper corrective measures. The 1999-2000 Civil Grand Jury should focus in depth on the problem of MUNI safety

3. SAFETY ON THE STREETS

The Grand Jury did not spend significant time investigating the problem of safety of MUNI vehicles while operating on the streets. However, it is apparent that, in the past twelve to twenty four months, there have been a number of serious accidents. Many accidents have involved drivers with inferior driving records. Mr. Burns advised the Grand Jury that it is his intention to create a Safety and Training Department which will report directly to the General Manager.

The Grand Jury recommends that the 1999-2000 Civil Grand Jury focus on this problem.

4. SECURITY

The Grand Jury found security to be incredibly lax in the various MUNI yards. For example, at the Woods yard, where many vehicles are stored, there is a ten foot high chain link fence, topped with razor wire, but the gate is wide open and unmanned. It is an open invitation for vandals and graffiti artists (taggers) to damage vehicles. Despite the fact that, in the past, a MUNI vehicle was stolen for a joyride, there are no obvious procedures to prevent other vehicle thefts. At the Marin Avenue yard,

there appeared to be no attempt to prevent unauthorized access to the facility

Employees park their cars in MUNI yards. While available parking space in neighborhoods near the yards may be limited or non-existent, parking of private cars in the yards may present a security risk. Also, employees wash their cars in the yards, creating liability problems. The Grand Jury was advised that employees service their own cars or the cars of others in yards and on working time. There is no confirmation of that information.

RECOMMENDATIONS

Gates should be locked or under guard at all times. Offices should be locked when unoccupied. Security guards should be on duty at each facility, with regular routes designed to protect MUNI property from theft and vandalism. There should be procedures to prevent employee theft.

Alternate parking accommodations should be provided for employees, outside of yards or in segregated areas. Washing or servicing of private vehicles should not be permitted on MUNI property.

THE FINANCIAL IMPACT OF THE AMENDMENT OF ADMINISTRATIVE CODE SECTION 12B ON THE OPERATIONS OF MUNI

In 1996 and 1997 the Board of Supervisors modified Administrative Code Section 12B by at least six separate amendments to provide that, with certain exceptions, the City would not purchase goods or services from vendors who discriminated in the way that they treated married employees from their treatment of employees with domestic partners, in granting various employee benefits, as described in Section 12B. The Grand Jury was advised by middle management MUNI personnel, and by those involved in purchasing parts, materials and supplies that, since the amendments by the City of Administrative Code Section 12B, the cost of purchasing such items has substantially increased. The rough estimates which were given were generally in the 10 to 15% range, but some thought the additional cost was much higher, reaching 30 or 35%. The Grand Jury found no one in any

maintenance facility who did not believe that the cost of acquiring parts, tools, and other items had gone up substantially.

In one MUNI facility, the Grand Jury was advised that, before adoption of the amendments to Section 12B, many parts, tools, nuts, bolts, other hardware items and supplies were purchased through the Grainger Supply catalog, a standard source for purchase of such items. Apparently, Grainger Supply has not qualified as a vendor under Section 12B. Since amendments of Section 12B, such items are purchased through a broker, involving a time delay. A salesperson for the broker comes to the facility with the Grainger Supply catalog in hand. Items are selected from the catalog and ordered from the broker. MUNI pays 30% more than it paid before, for the same items, from the same source and with a slower delivery time.

The Grand Jury met with the MUNI Council, consisting of the Controller, the City Attorney, the Director of Purchasing, the Director of Human Resources, and the Executive Director of the Transportation Commission, and learned that no attempt has been made to determine the cost to the City and the taxpayers due to the amendments to Section 12B, since actual cost data has become available. The Controller has twice advised the Grand Jury that it is probably impossible to accurately determine the additional cost to the City due to the amendments to Section 12B, although another department head privately advised the Grand Jury that it *would* be possible to determine the financial impact. The Controller did concede that, in some situations, it would be possible to determine the *minimum* additional cost to the City, but perhaps not the total additional cost. He attributed the difficulty in determining the total additional cost to the fact that it is not always possible to know which vendors refuse to bid on City contracts because of the burden added by the amendments to Section 12B and which vendors fail to bid on contracts for other reasons. It seems clear, however, that fewer vendors bid on City contracts since the amendments of Section 12B.

Michael Burns advised the Grand Jury that he was particularly surprised to find that, when MUNI purchased buses on a recent occasion, there were only two bidders. When the Philadelphia system made a similar purchase, it had 6 bidders. One MUNI supervisor advised the Grand Jury that one U.S.

manufacturer of diesel buses will no longer bid on *any* MUNI contract.

Members of the MUNI Council expressed the opinion that the additional cost caused by the implementation of Section 12B might be minimized by utilizing alternate procedures that can be followed to obtain waivers of the provisions of Section 12B when there are insufficient vendors in compliance with Section 12B. It is the sense of the Grand Jury that the waiver procedure is not, in fact, being widely used by MUNI and probably is not being widely used by other City Departments. Those interviewed by the Grand Jury were not employing the waiver procedure and may be unaware of how it works.

The waiver procedure is set forth in Section 12B.5-1 of the Administrative Code. (See Appendix D.) The procedure is time-consuming and could easily subject an employee to second guessing. It is easy to see why service employees may not choose to employ the troublesome waiver procedure, even if they understand it.

The City may be paying a significant price for its implementation of the Section 12B policy, yet the taxpayers (and the City leaders) do not know the magnitude of this additional cost.

No one interviewed by the Grand Jury suggested that MUNI or other Departments, are paying the same prices for purchases since the amendment of Section 12B. However, the Controller advised that MUNI is always complaining about any new procedure relating to purchasing and that MUNI purchasing has always lacked direction. He stated that MUNI always prefers the easier method of purchasing, not the method that saves the City the most money.

A failure to focus on any substantial premium necessarily paid for basic purchases under Section 12B may have resulted in a misuse of funds sorely needed by MUNI for its operations and to maintain its equipment and property. Management has not successfully addressed this problem.

The Mayor stated that the cost of continued implementation of Section 12B is a cost which, he believes, can be determined and that it is information which the public should have. The Mayor said that the public is entitled to information on *all* factors which impact upon the cost which the public must bear when paying taxes.

The Grand Jury has been advised, privately, that such information could be readily determined if any City Supervisor were to ask for it, but that, to date, no Supervisor has done so. The Controller has verified that, to date, none of the Supervisors, nor the Mayor, has asked for the cost to the City (and taxpayers) of the amendments to Section 12B. The Grand Jury has been advised that the question is a political one, a policy matter, and that, for that reason, no Department head would initiate an inquiry, unless asked by a Supervisor to do so.

FINDINGS

The City may be paying substantially more for many of its purchases because of the amendments to Administrative Code Section 12B. Those in charge are unaware of the magnitude of this additional burden on the public.

Certainly the public has been given no information on this matter. It is important that a determination be made of the cost of implementation of the amendments to Section 12B and that the information be made public.

In view of the continuing potential cost to the taxpayers because of the amendments to Administrative Code Section 12B, the Grand Jury finds that an inquiry should be made of the continuing annual cost to the City. That determination would best be made by the Budget Analyst. The audit should not be limited to the operations of MUNI, but should include the operations of all of the City Departments.

The Grand Jury also finds that efforts need to be made to limit the increased spending and take advantage of provisions in Section 12B for obtaining waivers because of a lack of approved vendors.

Perhaps waiver procedures should be streamlined.

Enforcement procedures need to be established to prevent departments from purchasing through brokers when less expensive alternatives are available. Department heads must be held responsible for seeing that such procedures are in fact followed. There must be some accountability.

RECOMMENDATIONS

The City's Budget Analyst should be engaged to perform an audit to determine the cost to the City arising from the amendments of Section 12B, in the operations of MUNI and of all the City's Departments. He should repeat that audit on an annual basis, at least until the City can solve the problem of overspending resulting from the operation of Section 12B.

The General Manager should take all steps to be certain that all personnel involved in purchasing and ordering are familiar with the provisions of Section 12B, especially the waiver procedures. Steps should be taken to ensure that purchases are made in a manner designed to maximize savings to MUNI. Administrative Code Section 12B should be amended to provide a streamlined waiver procedure which employees can pursue without undue effort. The Purchasing Department should exercise oversight to be certain that existing procedures are understood and followed.

RESPONSES REQUIRED

Mayor

Board of Supervisors

Director of San Francisco Municipal Railway

Director of Human Resources

Controller

Director of Purchasing

Budget Analyst

APPENDICES

APPENDIX A

Budget Analyst's Report to the San Francisco Board of Supervisors Analysis of Potential Dedicated Funding Sources for the Municipal Railway (MUNI), November 1995

APPENDIX B

Comparison Chart of Muni Expenditures
Staffing for Muni Mechanics at Presidio and Green Yards 1985-1998

APPENDIX C

Report of the New Muni Task Force, February 1999

APPENDIX D

San Francisco Administrative Code Chapter 12-B

APPENDIX A

REPORT TO THE
SAN FRANCISCO BOARD OF SUPERVISORS

ANALYSIS OF POTENTIAL DEDICATED
FUNDING SOURCES FOR THE
MUNICIPAL RAILWAY (MUNI)

BOARD OF SUPERVISORS
BUDGET ANALYST

NOVEMBER, 1995

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 MARKET STREET, SUITE 1025

SAN FRANCISCO, CALIFORNIA 94102 • TELEPHONE (415) 554-7642

November 6, 1995

Honorable Carole Migden
Member, San Francisco Board of Supervisors
City and County of San Francisco
Room 235, City Hall
San Francisco, CA 94102

Dear Supervisor Migden:

Pursuant to your request, we have analyzed various dedicated funding options for the Municipal Railway (MUNI), with regard to the feasibility of such options and the amount of potential revenue that each option would generate.

MUNI ten-year revenue and expenditure projections show sizable, and growing, annual operating deficits. Our analysis identifies the range of estimated operating deficits and examines various potential dedicated revenue sources for MUNI.

Our projections show an operating deficit of approximately \$7.2 million for MUNI in FY 1996-97, growing over the decade to approximately \$66 million in FY 2005-06. In preparing this report, we explored options which could allow the City to completely remove MUNI costs from the General Fund and replace the General Fund contribution with a dedicated revenue source. Without the General Fund contribution, we project that MUNI would face an operating deficit of \$44 million in FY 1996-97, growing to approximately \$116.3 million by FY 2005-06. MUNI's FY 1995-96 budget, as approved by the Board of Supervisors, forms the starting point of our projections. However, MUNI administration currently estimates that its FY 1995-96 budget is underfunded by a total of \$11 to \$18 million in FY 1995-96. (See Appendix IV for the Department's response to this report.) It should also be noted that potential cuts in Federal and State funds for transit capital needs, in contrast to operating needs, could have a future detrimental impact on MUNI. If MUNI prepares any updated projections of its funding needs to meet scheduled service

levels in the future, we will review such data at the direction of the Board of Supervisors.

The focus of this report is an analysis of potential dedicated funding sources for MUNI. We have concentrated on funding sources which are, or have historically been, dedicated to transit, in San Francisco and elsewhere. We identified these funding sources through discussions with administrators of MUNI and the San Francisco County Transportation Authority, other transit districts in California and nationwide, Metropolitan Transportation Commission (MTC) staff, California Transit Association staff, and a review of recent studies that have dealt with transit funding.

The potential funding mechanisms that we have examined are as follows:

- Sales Tax Increase Dedicated to Transit
- Increase in Proportion of BART Sales Tax Allocated to MUNI
- Vehicle License and Vehicle Registration Fee Surcharges
- Downtown Assessment District
- Citywide Assessment District
- Bay Bridge Toll Increase
- County or Regional Gas Tax
- Dedication of Possible Airport Payback to MUNI
- MUNI Fare Increase

The description of each funding mechanism includes a background statement, a description of the steps that would have to occur in order to implement the mechanism, and the estimated revenues that could be generated over a ten year period from this revenue source. Our projections show that the first year (FY 1996-97) estimated revenues from these sources range from approximately \$2.9 million for a one cent County Gas Tax up to, potentially, the full deficit amount of \$7.1 to \$44 million (depending upon whether or not the General Fund contribution is eliminated) for a Citywide Transit Assessment District. In the last year of our projections (FY 2005-06), the estimated revenues range from \$2.2 million for a one cent County Gas Tax up to, potentially, the full projected deficit amount of \$66 million to \$116.3 million for a Citywide Transit Assessment District. A comparison of ten-year revenue estimates for each of the options listed above is shown in Table 10 on page 20 of this report.

We direct your attention to comments on our report submitted by Mr. Roger Contreras, MUNI Deputy Director for Finance, Administration and Personnel, which are presented in Appendix IV. These comments outline additional funding options that were raised by MUNI following completion of this report, provide general comments on our analysis, and present MUNI's general position on the approach that should be taken in obtaining dedicated revenue sources.

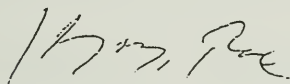
We wish to acknowledge the assistance of the Controller's Office and the City Attorney's Office in the preparation of this report. While the Controller has

Honorable Carole Migden
Member, San Francisco Board of Supervisors
November 6, 1995
Page 3

reviewed our draft report, the revenue projections contained in this report are estimates prepared by the Budget Analyst. The Controller would develop and certify formal revenue projections for any of the potential revenue sources considered here at such time as they were considered for adoption by the Board of Supervisors.

It should be noted, that while the Budget Analyst has identified the alternative funding sources as listed above, the Budget Analyst makes no recommendations in this report, because we consider the selection of any such funding sources to be a policy matter for the Board of Supervisors.

Respectfully Submitted,



Harvey M. Rose
Budget Analyst

cc: President Shelley
Supervisor Alioto
Supervisor Ammiano
Supervisor Bierman
Supervisor Hallinan
Supervisor Hsieh
Supervisor Kaufman
Supervisor Kennedy
Supervisor Leal
Supervisor Teng
Clerk of the Board
Chief Administrative Officer
Controller
Teresa Serata
Robert Oakes
Ted Lakey
Philip H. Adams
Roger Contreras

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ANALYSIS OF POTENTIAL DEDICATED FUNDING SOURCES FOR MUNI

Section I: Problem Statement

On October 2, 1995 the Board of Supervisors approved a resolution directing the Budget Analyst to explore dedicated funding options for the Municipal Railway (MUNI), with regard to the feasibility of such options and the amount of potential revenue that each would generate.

MUNI ten-year revenue and expenditure projections show sizable, and growing, annual operating deficits, which are detailed below. In addition, MUNI is already operating below listed service levels, because staffing and maintenance budgets are not fully funded. As labor and other costs increase in the coming decade, Federal operating revenues are expected to be eliminated, and the General Fund contribution to MUNI's operating budget will remain uncertain because of the many competing demands on the City's resources. In order to close the operating deficit, one or more of the following steps will have to be taken:

- (a) increase the General Fund contributions to MUNI;
- (b) implement fare increases;
- (c) reduce operating expenses through reductions in service and/or new labor contracts; and/or;
- (d) implement new revenue sources.

In preparing this report, it was requested that the Budget Analyst explore options which could allow the City to completely remove MUNI costs from the General Fund, and replace the General Fund contribution with a dedicated revenue source. In this report we quantify revenues that could be raised from potential alternative dedicated funding sources over a ten year period. Such funding sources could be used to augment the existing level of funding for MUNI in order to eliminate the projected deficit, or to both eliminate the projected deficit and replace the General Fund as a source of operating revenue for MUNI. The scenarios examined in this report do not involve a shift of funds from current General Fund sources to the MUNI, such as was implemented through Proposition M, as such shifts would not result in net revenue benefits to MUNI.

In Section 2, we will quantify MUNI's funding needs and provide a range of dedicated funding goals, based on, (1) eliminating the projected deficit, assuming continued General Fund support for MUNI; and, (2) eliminating the projected deficit and replacing the General Fund as a source of operating revenue for MUNI. In Section 3, we will examine potential alternative sources of dedicated funding for MUNI.

We wish to acknowledge the assistance of the Controller's Office and the City Attorney's Office in the preparation of this report. While the Controller has reviewed our draft report, the revenue projections contained here are estimates prepared by the Budget Analyst. The Controller would develop and certify formal revenue projections for any of the potential revenue sources considered here at such time as they were considered for adoption. It should also be noted, that while the Budget Analyst has identified alternative funding sources, the Budget Analyst makes no recommendations in this report, because we consider the selection of any such funding sources to be a policy matter for the Board of Supervisors.

Section II: Projected MUNI Operating Deficit

MUNI's operating budget is funded in FY 1995-96 by the following revenue sources:

Table 1: MUNI Operating Fund Sources

<u>Source of Operating Funds</u>	<u>Budgeted Funding Sources FY 1995-96</u>	<u>Percent of Total FY 1995-96 Operating Budget</u>
City General Fund	\$35,611,000	12.7%
Parking Fines/Meter Revenues	76,955,000	27.4
Fare Revenues (with Paratransit)	91,479,000	32.6
Proposition B Sales Tax Revenues ¹	4,477,000	1.6
Hetch Hetchy Transfer	7,730,000	2.7
Advertising and Misc.	3,617,000	1.3
Transit Impact Development Fee	4,637,000	1.7
State and Regional Subsidies	50,990,000	18.1
Federal Operating Subsidies	<u>5,322,000</u>	<u>1.9</u>
Total Operating Budget	\$280,818,000	100.0%

It should be noted that in each of the last five years, MUNI has incurred a substantial operating deficit, and has been granted supplemental appropriations ranging up to \$8 million. An operating deficit is likely to recur in MUNI's FY 1995-96 budget. The Budget Analyst previously estimated that the Platform Salaries item in the FY 1995-96 budget could be underfunded by up to \$2.5 million. The FY 1995-96 budget included an assumption that this \$2.5 million could be saved through operating efficiencies during the year, but in practice the operating deficit is made up largely through missed service. In addition, MUNI typically experiences deficiencies in its Materials and Supplies budget, in Workers Compensation, and in other areas. MUNI currently estimates that its FY 1995-96 budget is underfunded by \$2 to \$9 million, and expect to request a supplemental appropriation to balance its budget. In addition, MUNI reports that an additional \$6 million annually would be required to meet scheduled service. Finally, MUNI states that an additional estimated \$3 million annually is needed to improve MUNI's administrative and management capacity as recommended by State and Federal funding agencies, which brings the total to \$11 to \$18 million in additional funds which could be required to balance the budget, meet scheduled service and address administrative "inadequacies" in FY 1995-96. If MUNI prepares updated projections of its funding needs to meet scheduled service levels in the future, we would be pleased to review such data for the Board of Supervisors.

¹Table 1 shows only that portion of Proposition B Sales Tax revenues designated for MUNI operating service. This represents approximately 9.4 percent of the total projected FY 1995-96 Proposition B Sales Tax revenues of \$47.34 million. Proposition B revenues are also used for MUNI capital needs, paratransit, and street repair and traffic safety projects.

The Budget Analyst has reviewed MUNI projections of operating expenses and revenues over the next ten years, and prepared independent projections that form the basis of our estimate of revenue needs. Both the Budget Analyst projections and the projections provided in MUNI's Short Range Transit Plan are explained in Appendix 1 of this report. In general, MUNI's internal projections assume 4 percent annual growth for most revenue sources and expenditure items. As detailed in Appendix 1, we believe that 4 percent annual growth is overly optimistic for MUNI revenue sources, and have used 3.5 percent annual growth for most revenue sources.

At the same time, we believe that projecting 4 percent annual growth in MUNI labor costs is unwarranted given that, in the past five years, MUNI's overall salary spending, including regular, overtime, and other types of pay, have increased by 8.4 percent, or an average of 1.68 percent per year. Benefit costs have decreased by 14.6 percent over the same time period, although Worker's Compensation costs have increased by 82 percent. The Budget Analyst's projections of MUNI's operating costs assume that labor cost increases are held to the rate of inflation, or 3.5 percent. We use MUNI's assumption that cost control measures for Workers Compensation will achieve control over the growth of these expenditures. All other operating costs in our projections, with the exception of equipment lease payments, which are scheduled to end in FY 1997-98, are also shown increasing at an inflation rate of 3.5 percent annually.

A ten-year projection of MUNI operating deficits resulting from the analysis in Appendix 1 is shown in Table 2 below, under the assumptions that; (1) the General Fund contribution is set at the FY 1995-96 level of approximately \$35.6 million, plus annual inflationary increases of 3.5 percent, or, (2) the General Fund contribution to MUNI is eliminated. Table 2 establishes a range of needed dedicated revenues for MUNI, depending upon whether the Board of Supervisors wishes to fund MUNI's existing projected operating deficit or to both replace the General Fund contribution and fund the existing projected operating deficit. As stated earlier, this report focuses on addressing MUNI's operating deficit through raising dedicated revenues, but the deficit could also be addressed through increasing the General Fund contribution and/or reducing operating expenses. In addition, we reiterate that MUNI's approved budget, which forms the starting point of this projection, may be underfunded. MUNI's current projection is that the agency is underfunded by up to \$18 million in FY 1995-96. These projections also use the assumption made by MUNI in the Short Range Transit Plan that MUNI will continue to deliver less than scheduled service levels.

This report focuses on MUNI's operating needs. MUNI's capital program for the next five years shows programmed expenditures of approximately \$900 million, assumes approximately \$571 million in Federal matching funds, and requires approximately \$330 million in local, State and regional matching funds. At this point, adequate local matching funds are programmed from a variety of sources. However, Federal budget balancing efforts, the failure of new State bond measures in 1994 and other State funding shortfalls for transportation make it

likely that Federal and State funding for transit capital programs may be significantly delayed or reduced from programmed levels. Finally, the ability to carry out other, longer range capital programs, such as replacement of MUNI maintenance and revenue-handling facilities, development of the Third Street corridor, and construction of the Metro East LRV facility, are in doubt.

Table 2: Projected MUNI Operating Deficits over Ten Years

<u>Fiscal Year</u>	Projected Operating Deficits if General Fund Contribution <u>Increases 3.5% Annually</u>	Projected Operating Deficits if General Fund Contribution <u>Eliminated</u>
FY 1996-97	\$7,159,000	\$44,017,000
FY 1997-98	13,554,000	51,701,000
FY 1998-99	20,202,000	59,685,000
FY 1999-00	27,244,000	68,109,000
FY 2000-01	33,722,000	76,017,000
FY 2001-02	40,397,000	84,172,000
FY 2002-03	46,526,000	91,834,000
FY 2003-04	52,873,000	99,766,000
FY 2004-05	59,333,000	107,867,000
FY 2005-06	66,046,000	116,279,000

Section 3: Potential Dedicated Funding Sources for MUNI

Introduction

In this section we analyze potential dedicated funding sources for MUNI. For the purposes of this study, we have focused on funding sources which are now or have historically been dedicated to transit, in San Francisco or elsewhere. The funding mechanisms that we have examined are as follows:

- Sales Tax Increase Dedicated to Transit
- Increase in Proportion of BART Sales Tax Allocated to MUNI
- Vehicle License and Vehicle Registration Fee Surcharges
- Downtown Assessment District
- Citywide Assessment District
- Bay Bridge Toll Increase
- County or Regional Gas Tax
- Dedication of Possible Airport Payback to Transit
- MUNI Fare Increase

The description of each funding mechanism includes a background statement, a description of the steps that would have to occur in order to implement the mechanism, and the estimated revenues that could be generated over a ten year period from this revenue source. A comparison of ten-year revenue estimates for each of the options listed above is shown on Table 10 on page 20 of this report.

1. SALES TAX INCREASE

Background: The voters of San Francisco passed Measure B in 1989, which established a half cent sales tax for transportation in the City and County of San Francisco. Measure B funds are administered by the Transportation Authority. This sales tax will expire after FY 2009-10. In addition, residents of San Francisco pay a half cent sales tax for BART, which is administered by the Metropolitan Transportation Commission (MTC). MUNI and AC Transit each receive 12.5 percent of the BART sales tax revenues, pursuant to AB1107, which was passed in the late 1970s.

San Francisco's sales tax is currently 8.5 percent. According to the City Attorney, the State legislature has given the City the authority to increase the sales tax by another half percent. If the additional revenue from such a half cent increase were dedicated to a specific purpose, such as transit, the increase would require two-thirds voter approval.

Implementation Procedure: Ms. Julia Friedlander of the City Attorney's Office advises that, under State Revenue and Taxation Code Section 7285, the Board of Supervisors could, by a two-thirds vote of its members, place a measure on the ballot to increase the sales tax. The City Attorney's Office advises that any new dedicated sales tax proposed in San Francisco would require approval by two-

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thirds of the voters. It should be noted that San Francisco, at the current 8.5 percent rate, has the highest sales tax in the State.

Projected Revenues: The following table is based on MTC projections:

Table 3: Annual Projected Revenues from Local Sales Tax Increase

<u>Projected Annual Revenues</u>	<u>Quarter Cent Sales Tax</u>	<u>Half Cent Sales Tax</u>
FY 1996-97	\$24,109,500	\$48,219,000
FY 1997-98	25,576,500	51,153,000
FY 1998-99	26,934,000	53,868,000
FY 1999-00	28,364,000	56,728,000
FY 2000-01	29,870,000	59,740,000
FY 2001-02	31,456,000	62,912,000
FY 2002-03	33,126,000	66,252,000
FY 2003-04	34,885,000	69,770,000
FY 2004-05	36,737,000	73,474,000
FY 2005-06	39,371,000	78,742,000

2. INCREASE PROPORTION OF BART SALES TAX FOR MUNI

Background: As stated above, MUNI and AC Transit currently each receive 12.5 percent of the BART half cent sales tax. The only way to increase the proportion of BART sales tax revenues allocated to MUNI would be to decrease the allocation to BART and/or AC Transit. MUNI administrators are developing a proposal that would reallocate the BART half cent sales tax based on the proportion of total ridership associated with each transit system. Such a reallocation would provide MUNI with 61.8 percent of the revenues from the BART half cent sales tax, or an additional \$78.7 million in FY 1996-97, at the same time reducing BART's revenues by \$87 million, with the balance reallocated to AC Transit. In this report, we have taken the more conservative approach of analyzing the increased revenues from raising the allocation to MUNI from 12.5 percent of the total to a range of 15 percent to 17.5 percent of the total BART half cent sales tax revenues.

Implementation Procedure: MTC has the authority to change the allocation of the BART District Sales Tax revenues, so the City would have to bring such a proposal to the MTC for approval.

Projected Revenues: The following table is based on MTC projections of revenues from the BART District regional half cent sales tax:

*Table 4: Annual Projected Revenues from Increase in
BART Sales Tax Allocation*

<u>Projected Annual Revenues</u>	<u>2.5 Percent Increase in MUNI Allocation</u>	<u>5 Percent Increase in MUNI Allocation</u>
FY 1996-97	\$3,994,975	\$7,989,950
FY 1997-98	4,258,900	8,517,800
FY 1998-99	4,508,800	9,017,600
FY 1999-00	4,773,450	9,546,900
FY 2000-01	5,053,750	10,107,500
FY 2001-02	5,350,525	10,701,050
FY 2002-03	5,664,975	11,329,950
FY 2003-04	5,997,950	11,995,900
FY 2004-05	6,350,625	12,701,250
FY 2005-06	6,879,600	13,759,200

3. VEHICLE LICENSE AND VEHICLE REGISTRATION FEE SURCHARGES

Background: In October of 1993 the Governor signed AB925, (drafted by Supervisor Barbara Kaufman), which permits the voters of San Francisco to impose (1) a local vehicle license fee (VLF) surcharge, and (2) a local vehicle registration fee (VRF) surcharge on the registration or renewal of registration of specified vehicles within the City, for the provision of transit capital, security and maintenance costs. In other words, revenue from these surcharges could not be spent on operating costs other than security and maintenance costs. However, MUNI's other operating revenue sources are fungible, so it would be possible to augment total operating revenues by dedicating the revenues from such surcharges to meeting MUNI security and maintenance costs.

The VLF and VRF surcharges may be imposed on all vehicles, except those vehicles which are expressly exempted from the payment of vehicle registration fees and commercial vehicles weighing more than 4,000 pounds unladen. The State enabling legislation requires that the surcharges be eliminated if and when a MUNI fare increase is implemented. In other words, the Board of Supervisors could not increase MUNI fares and charge these vehicle license and vehicle registration surcharges.

Under the State Vehicle Code, the State currently imposes a vehicle license fee on all vehicles that use the public highways, which is equal to 2 percent of the vehicle's market value, based on the depreciated value of the vehicle. The passage of AB925 authorized the City to impose a local VLF surcharge of up to 15 percent of the State's vehicle license fee on all vehicles except for those exceptions described above.

The State also currently imposes a base vehicle registration fee of \$29 on each vehicle using a public highway. In addition, there is a total of \$7 in vehicle registration fee surcharges including: (1) \$1 fee for abandoned vehicle removal, (2) \$1 fee for service authorities for freeway emergencies, (3) \$1 fee for vehicle theft

deterrence, investigation and prosecution, and (4) \$4 fee for air pollution abatement. The passage of AB 925 authorizes the City to impose a vehicle registration fee surcharge of \$4 on all vehicles except for commercial vehicles weighing more than 4,000 pounds unladen.

Implementation Procedure: In order to implement the VLF and VRF surcharges, the following must occur: (1) the Board of Supervisors must make a finding that: (a) traffic congestion within the City could be alleviated by public transit, and (b) the cost of funding public transit exceeds revenues collected from either the VLF surcharge or the VRF surcharge; (2) the Board of Supervisors must adopt an ordinance to impose the VLF and VRF surcharges and place such ordinance on the ballot; and (3) two-thirds voter approval must be obtained. As stated above, if MUNI fares are increased at any time while the VLF or VRF surcharges are in effect, the surcharges must be eliminated.

Projected Revenues: The following projections are calculated based on information provided by the State Department of Motor Vehicles. All revenues collected by the State Department of Motor Vehicles (DMV), after the deduction of the administrative costs incurred by the DMV for the implementation and administration of the VLF and VRF surcharges will be paid to San Francisco. The DMV estimates that the cost to implement the VLF and VRF surcharges would be approximately \$77,715, which would be incurred over a six-month period. The DMV estimates that the annual ongoing costs associated with the administration of the VLF and VRF surcharges are approximately \$75,474. (See Appendix 2 for a detailed description of the projection methodology.) Because the State legislation precludes MUNI fare increases during the time that a VLF and VRF are in effect, analysis of this potential revenues source must be compared with the revenues that could be generated from fare increases that keep pace with inflation over the ten year period. The summary figures at the end of this section, as presented in Table 10, permit such a comparison.

Table 5: Projected Annual Revenues from City Vehicle License and Registration Surcharges

	<u>VLF Surcharge</u>	<u>VRF Surcharge</u>	<u>Total Net Revenues</u>
FY 1996-97	\$6,386,895	\$1,635,380	\$8,022,275
FY 1997-98	6,621,360	1,651,740	8,273,100
FY 1998-99	6,866,294	1,668,464	8,534,758
FY 1999-00	7,122,156	1,685,552	8,807,708
FY 2000-01	7,389,428	1,703,020	9,092,448
FY 2001-02	7,668,572	1,720,852	9,389,424
FY 2002-03	7,960,129	1,739,064	9,699,193
FY 2003-04	8,264,620	1,757,652	10,022,272
FY 2004-05	8,588,818	1,777,812	10,366,630
FY 2005-06	8,914,635	1,795,960	10,710,595

State Assembly Appropriations Committee 1993 Revenue Estimate

In 1993, the State Assembly Appropriations Committee analysis of AB 925 indicated that if the City imposed the VLF and VRF surcharge fees, the City would generate approximately \$10.9 million annually, including \$9.2 million from the VLF surcharge fee and approximately \$1.7 million from the VRF surcharge fee. The revenue estimates generated by the State Assembly Appropriations Committee are approximately \$2.9 million greater than those estimated by the Budget Analyst.

The State Appropriations Committee based their analysis on a statewide average vehicle license fee of \$150 for all vehicles. However, DMV published data shows that the statewide average Vehicle License Fee in 1993 was \$102 for automobiles and motorcycles, and \$65 for trucks and trailers. In 1994, DMV published data shows that the statewide average VLF is \$105 for automobiles and motorcycles, and \$64 for trucks and trailers. Our analysis is based on the 1994 published data provided to us by the DMV.

Based on these data, and on DMV estimates of the number of vehicles subject to the surcharge, we estimate that total revenue from the VLF and VRF surcharge fees would generate approximately \$8.0 million annually in FY 1996-97, or \$2.9 million less than the estimate provided to the State Assembly in 1993.

4. DOWNTOWN ASSESSMENT DISTRICT

Background: In 1981, the Board of Supervisors commissioned studies to determine the value of the benefit that downtown property owners receive from the higher level of MUNI service provided to and within downtown. The initial proposal would have established an assessment district in the area bounded approximately by the Embarcadero to the east, Folsom Street to the south, Gough Street to the west and Vallejo Street to the north. Assessments were proposed to be levied on commercial space in this area. However, the Board of Supervisors did not set up a transit assessment district at that time. In November of 1994 the voters of San Francisco defeated Proposition O, which would have urged the Board of Supervisors to establish a Downtown Transit Assessment District and provided up to \$300,000 to update the research to establish such a district. Prop. O stated that the boundaries should be reconfigured to include expanded commercial areas developed since 1981 or expected to be developed in the next decade.

Implementation Procedure: State law permits local and regional jurisdictions to form special assessment districts by ordinance that charge property owners for benefits conferred by public facilities in their area and the maintenance required for such facilities. As with any ordinance action, such a district can be established by a majority vote of the Board of Supervisors with the signature of the Mayor. In addition, establishment of a benefit assessment district requires that the City notify all affected property owners of the intention to create the assessment district and levy the assessment.

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In creating the assessment district, the City must produce an Engineer's Report which: a) presents a defensible methodology to quantify the amount of benefit to downtown property owners from the higher level of MUNI service in the area, b) quantifies the cost of providing this higher level of service, and c) apportions the cost associated with the higher level of downtown MUNI service among property owners with a formula that reasonably relates the assessment to the benefits which are derived. The Engineer's report is then approved by resolution, two public hearings which are required by State law must be scheduled, and a 45-day comment period during which time property owners may protest the assessment is opened. Proceedings to form the assessment district must be stopped if a majority of property owners protest the assessment within the 45 day period. If a majority of property owners do not protest, the City may proceed with forming the assessment district and levying the assessment. Under State law, benefit assessment districts must be renewed annually, and an Engineer's report produced which updates the research relating assessments to benefits. It should be noted that there are significant administrative and legal costs associated with forming an assessment district and administering the funds raised, due to the necessity to notify property owners, and to the need to respond to property owner protests, among other requirements.

The 1981 downtown assessment district studies had two principal parts:

- A calculation of the amount by which MUNI service downtown exceeds the service provided in the rest of the city, and the value of that higher level of MUNI service as represented in such benefits as savings in worker transportation costs; savings in worker, customer and client time; and the savings in not having to provide parking facilities.
- A determination of the cost of operating downtown-related services, the revenues generated by downtown-related services, and the "net deficit" arising from such services. If the City had proceeded with the formation of a benefit assessment district at that time, this net deficit amount would likely have been fully apportioned among commercial property owners in the assessment district, based on a calculation of the transit usage generated per square foot for different categories of property (office building, retail, warehouse).

Projected Revenue: In the time available to research the current report, it is not possible to reexamine and update the research done for the 1981 reports, due to the extreme complexity involved in determining the growth of downtown in both size and value, the increase in the value of MUNI services, and many other factors. At the time, consultants determined that the "downtown net deficit" to be apportioned among property owners in a transit assessment district was an amount of \$20,780,000. In 1995 dollars, this amount would be \$33,933,740, based on increases in the Consumer Price Index in the San Francisco Bay Area from 1981 to the present. For the purposes of this report, this amount of \$33,933,740 is assumed to be the minimum that could be apportioned in a downtown transit benefit assessment district beginning in 1996-97. It should be noted that San Francisco currently imposes a Transit Impact Development Fee (TIDF) of \$5.00 per square foot on new downtown office space, and that properties which have

been subject to this fee would be entitled to an offset of some portion of assessments under a downtown assessment district. As the costs of providing downtown MUNI service rise, the amount of operating funds to be raised through the benefit assessment district could also increase. As such, revenues from this source can be projected to increase, at minimum, at the rate of inflation. If new MUNI services added over the coming years disproportionately benefit the downtown area, the costs of such services could also potentially be included in an assessment.

Table 6: Annual Projected Revenues from a Downtown Assessment District

<u>Projected Annual Revenues</u>	<u>3.5 percent annual increase</u>
FY 1996-97	\$33,933,740
FY 1997-98	\$35,121,421
FY 1998-99	\$36,350,671
FY 1999-00	\$37,622,944
FY 2000-01	\$38,939,747
FY 2001-02	\$40,302,638
FY 2002-03	\$41,713,231
FY 2003-04	\$43,173,194
FY 2004-05	\$44,684,255
FY 2005-06	\$46,248,204

5. CITYWIDE TRANSIT ASSESSMENT DISTRICT

Background: State law, which allows the creation of benefit assessment districts for particular areas, also allows the creation of such districts citywide. Such districts have been created to fund the operation and maintenance of city parks, street lighting, street maintenance, and other services. As with the downtown assessment district described above, the assessment to be levied must be reasonably related to the benefit to be derived to property from the facilities, and must be assessed annually. The Swanson report published recently by the San Francisco Chamber of Commerce has proposed a Citywide Transit Service and Maintenance District, with an assessment to be set annually by a new MUNI Railway Transit District Board to raise an increment of operating and capital funding for MUNI to augment existing General Fund, Parking revenues, State, and Federal funding.

In May of 1995, the Board of Supervisors considered and then tabled a proposal to create a citywide assessment district to fund Recreation and Park Department (RPD) services and maintenance that would have raised up to \$15.5 million, based on assessments averaging from \$55.43 for a single family dwelling to \$173.50 for a hotel or motel. Because assessments are based on a complex formula involving an apportionment of benefits from the funded operation, it cannot be assumed that the level of assessments for a citywide transit district would be related to those calculated for the RPD assessment district. However, these figures provide some indication of the cost to property owners of a MUNI citywide assessment district,

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which would be lower if the district was designed to cover the MUNI deficit while keeping the General Fund contribution constant (approximately \$7.1 million in FY 1996-97), and considerably higher if the district was designed to cover the existing projected MUNI deficit and replace the General Fund contribution to MUNI (approximately \$44 million in FY 1996-97.)

Implementation Procedure: Again, as above, a citywide assessment district can be established by ordinance following the public notification procedures, preparation of the Engineer's Report, and other procedures outlined in the previous section. In addition, Ms. Friedlander notes that, in order for the Engineer's Report to establish that MUNI provides special benefits to property owners citywide, a new analysis would be required. The special benefits analysis prepared for a downtown benefit assessment district may not be applicable to a citywide assessment district. In addition, as with the downtown assessment district discussed above, properties which have been subject to the TIDF fee would be entitled to an offset of some portion of assessments under a citywide assessment district.

Projected Revenues: As noted above, the Board of Supervisors previously considered an ordinance to create a City-wide assessment district to fund operations and maintenance of City parks. This proposal would have raised up to \$15.5 million annually beginning in FY 1995-96, based on assessments averaging from \$55.43 for a single family dwelling to \$173.50 for a hotel or motel. In the case of a MUNI assessment district, it is possible that a City-wide benefit assessment district could be sized to fund MUNI's entire operating deficit, which, as noted above, is estimated to start at \$7.1 million in FY 1996-97, with the current General Fund contribution held constant, and \$44 million without the General Fund contribution. (The Engineer's Report would have to establish that this level of "special benefit" from MUNI services is received by San Francisco property owners.) In other words, the annual revenue stream could possibly be established each year to equal the MUNI operating deficit.

6. BAY BRIDGE TOLL INCREASE

Background: In general, bridge toll funds collected in the Bay Area are used for the repayment of bonds, bridge maintenance, and for several major construction projects. Revenue of approximately \$11 million annually from \$0.25 of the southern bridge tolls (Bay Bridge, San Mateo Bridge and Dumbarton Bridge) is distributed among transit operations, (MUNI, AC Transit, BART, SAMTRANS). Bridge toll revenues are generally used as a match for Federal Section 9 funds. The MTC estimates that, in the absence of toll increases, there will be limited growth in overall bridge toll revenues for the foreseeable future, because most of the bridges, including the Bay Bridge, are at capacity.

The MTC has developed a proposal to institute congestion pricing on the Bay Bridge, under which the toll would rise to \$3 from 6 a.m. to 9 a.m. and from 3 p.m. to 6 p.m. This proposal is currently under discussion among State legislators, but no legislative action is expected in the near future. Also, Rep. Bob

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Campbell of Contra Costa is preparing a bill that would charge an extra \$1.00 on all Bay Area bridges for transit.

Implementation Procedure: Approval of the State legislature would be required to institute congestion pricing or to increase the basic Bay Bridge toll. Specific legislative authorization would be required to enable use of such bridge toll revenues for transit operating (as opposed to capital) expenditures. San Francisco would need to bring a proposal for a Bay Bridge toll increase to the MTC, which could then bring it to the State legislature. The City could go directly to the State legislature, but because the MTC coordinates regional transit policy, MTC support would be critical in an effort to increase bridge tolls.

Projected Revenues: The projected revenues from a \$1.00 increase in the Bay Bridge toll have been calculated by the MTC assuming a five percent carpool elasticity factor. (In other words, the projections assume that the number of vehicles traveling on the Bay Bridge would decrease by 5 percent as commuters carpool more in reaction to a \$1.00 toll increase.) Because traffic on the Bay Bridge is already close to capacity, the MTC does not project increases in Bay Bridge commuters over the next decade. Therefore, a flat annual total revenue projection from a \$1 Bay Bridge toll increase of \$38,364,065 is estimated. MUNI currently receives approximately 30 percent of the Bay Bridge toll revenues designated for transit. Assuming that the entire \$1.00 toll increase was dedicated to transit, and that the allocation of 30 percent of bridge toll transit funds to MUNI was applied to such toll increase, we estimate annual revenues of \$11,509,219 to MUNI from a \$1.00 Bay Bridge toll increase.

7. COUNTY GAS TAX

Background: The State gasoline tax is currently 18 cents per gallon. San Francisco voters approved an initiative during the 1980s which authorized an increase in the gas tax at the County level. However, this County gas tax was never implemented, and Ms. Friedlander advises that, because the measure was approved by a simple majority rather than a two-thirds majority of the voters, a new vote would be required to institute a County gas tax at this time. Gasoline consumption is not expected to increase over the coming decade, as alternative fuels become more viable for motor vehicles. The Controller's Office also advises that the number of gas stations in San Francisco has decreased in recent years, although it is not known whether this trend will continue.

Implementation Procedure: Ms. Friedlander reports that implementation of a County gas tax would require two-thirds voter approval. She advises that there may be other implementation requirements, which the City Attorney can pursue if the Board of Supervisors is interested in this option.

Projected Revenues: The table below is based on State Board of Equalization data, taking the ratio of taxable sales at service stations in San Francisco in 1994 to comparable sales statewide, and multiplying that proportion by total gasoline consumption in California in 1994. We estimate that 309,701,503 gallons of

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gasoline were sold in San Francisco in 1994. We have projected future gasoline sales using MTC projections of trends in gasoline consumption in the Bay Area, which assume approximately 2.95 percent annual declines in gasoline consumption over the coming decade, largely because of increasing use of alternative fuels. There would likely be a further reduction in purchase of gasoline in San Francisco as a result of the price increase associated with a County gas tax. We have assumed a 5 percent price elasticity factor (i.e. a 5 percent reduction in gasoline purchases in San Francisco) associated with a 5 cent per gallon County gas tax.

Table 7: Annual Projected Revenues from Local Gas Tax

<u>Fiscal Year</u>	<u>1 Cent per Gallon County Gas Tax</u>	<u>5 Cent per Gallon County Gas Tax</u>
FY 1996-97	\$2,916,986	\$13,855,685
FY 1997-98	2,830,935	13,446,942
FY 1998-99	2,747,423	13,050,258
FY 1999-00	2,666,374	12,665,275
FY 2000-01	2,587,716	12,291,649
FY 2001-02	2,511,378	11,929,046
FY 2002-03	2,437,292	11,577,139
FY 2003-04	2,365,392	11,235,613
FY 2004-05	2,295,613	10,904,163
FY 2005-06	2,227,893	10,582,590

8. REGIONAL GAS TAX

Background: The MTC has proposed legislation that would permit the Bay Area to vote to institute a regional gas tax. This legislation has passed the State Senate but stalled in the Assembly. (SB877, Sen. Alquist). The legislation would put a 10 cent per gallon excise tax on gas in the nine county Bay Area. Revenues would be allocated to localities by the MTC based on projected population. Revenues could be used for public transit operations and maintenance, but would not be restricted to such purposes. For example, street maintenance could also be funded with the revenues generated by this proposed regional gas tax.

Implementation: The State Legislature would first have to vote to authorize a Bay Area gas tax. The legislation that is currently in the State Legislature states that the MTC could then request each of the nine counties to place a gas tax measure on their ballot. Two-thirds voter approval would be required, although as of the writing of this report, the State Office of Legislative Council had not determined whether the approval of voters in all nine counties would have to be obtained in order for the gas tax to be implemented in any of the counties.

Projected Revenues: The following table is based on Board of Equalization estimates of gasoline consumption in the Bay Area during calendar year 1994, and MTC projections of future trends in gasoline consumption in the Bay Area.

Table 8: Annual Projected Revenues from Regional Gas Tax

<u>Fiscal Year</u>	10 Cent per Gallon <u>Regional Gas Tax</u>
FY 1996-97	\$6,974,000
FY 1997-98	27,033,000
FY 1998-99	26,197,000
FY 1999-00	25,386,000
FY 2000-01	24,637,000
FY 2001-02	23,910,000
FY 2002-03	23,205,000
FY 2003-04	22,519,000
FY 2004-05	21,854,000
FY 2005-06	21,239,000

9. DEDICATION OF POSSIBLE AIRPORT PAYBACK TO TRANSIT

Background: The Board of Supervisors has directed the Budget Analyst to conduct an audit of the San Francisco International Airport in order to independently determine; (a) the amount, if any, of surplus Airport funds, and, (b) the amount of monies which the City's General Fund has contributed to the Airport, since the inception of the San Francisco International Airport in 1927. This audit is currently in progress.

Federal regulations currently limit the use of airport revenues to airport-related expenditures. There are several other legal constraints limiting the use of airport revenues to airport-related expenditures, however, a repayment to the City by the Airport may not be subject to such restrictions. Therefore, it would potentially be possible to dedicate any such future payment from the Airport to a trust fund to support MUNI operations. (Such payback would otherwise go to the General Fund, or any other fund designated by the Board of Supervisors). The tourism link between airport functions and public transit functions could provide a rationale for dedicating any airport payback to transit.

At the time this report was written, no estimates were available of the amount of money that might be recovered from the Airport. Furthermore, there are major legal uncertainties relative to the City's ability to immediately recapture monies owed by the Airport. The Budget Analyst will issue the "Analysis of the Original Funding Sources of the San Francisco International Airport" by the end of 1995. We present the idea of dedicating the Airport payback to support MUNI operations as an option that merits further consideration subsequent to the release of the Budget Analyst's report on this matter.

10. FARE INCREASE

Background: Over the last five years, MUNI's fare structure has been changed several times to help balance the budget. In 1991, and again in 1992, MUNI fares and/or Fast Pass prices were increased. In August of 1993, the adult Fast Pass price was increased from \$32.00 to \$35.00, and other changes including elimination of transfers and the introduction of a Day Pass were instituted. This structure was dropped approximately seven months later in March of 1994. The adult fare of \$1.00 has been in place since August of 1992, and the Fast Pass price of \$35.00 per month set in 1993 remains in place. Discount fares for youth, seniors, and the disabled were raised as part of the August 1993 increase and remain at the level of 35¢ per ride and \$8.00 for the Fast Pass. With some lag periods, MUNI fares have roughly kept pace with inflation for the ten year period from 1985 to the present. Fare revenue reached its highest level in FY 1993-94, generating approximately \$96.6 million. Ridership has fallen approximately 3.6 percent annually in the last three years, resulting in lower fare revenues despite the increases in fare levels outlined above. However, fares remain MUNI's largest single source of revenue, projected at \$91,479,000 for FY 1995-96, approximately 32.5 percent of revenues.

In order to remain eligible for certain categories of funding, including AB1107 funds, MUNI is required to keep fare collections at a minimum of 32 percent of operating costs. Several adjustments are permitted to this "farebox recovery ratio." Local operators may include other funds, including local sales tax funds dedicated to transit, in the revenues applied to the recovery ratio, and up to a 5 percent credit is permitted if discount fares for seniors, youth and the disabled are part of the fare structure. While base MUNI fares have increased roughly at the rate of inflation, the current \$1.00 fare is an average to low base level, in comparison to other major metropolitan transit systems, such as New York (going up to \$1.50 during November), Chicago (\$1.50), and, in the Bay Area, AC Transit (\$1.25). In addition, most monthly transit system passes are based on a 40-ride assumption, which would price the MUNI Fast Pass at \$40.00. For these reasons among others, in its annual reviews of MUNI's financial capacity, MTC has stated that MUNI should raise fares, in order to meet a portion of its operating deficit.

Implementation Procedure: Fare increases must be proposed by the Public Transportation Commission (PTC). The Board of Supervisors, through their normal public hearing processes, can approve, modify or reject fare increase proposals made by the PTC.

Additional methods for adjusting fares are also possible. City Charter Section 3.705, which establishes the PTC's and Board's authority to set fares, would have to be amended to establish an automatic periodic fare adjustment based on inflation or on a farebox recovery ratio to generate a fixed percentage of MUNI's operating budget. However, the PTC could propose and the Board of Supervisors could approve an ordinance setting a multi-year schedule of specific fare increase amounts without a Charter amendment.

Projected Revenues: MUNI currently estimates its total annual ridership at 216,330,887. Historically, fare increases do somewhat decrease ridership. As noted above, MUNI ridership has decreased approximately 3.6 percent per year for the last three years. MUNI does not have historical data to project the potential effects of a fare increase on ridership in the system, however, studies conducted by the U.S. Department of Transportation (DOT) have found that, on average, a fare increase can be expected to reduce ridership by approximately 1/3 of the percentage increase in the fare. For example, a ten percent fare increase could be expected to reduce ridership by approximately 3 percent. The following revenue projection looks at the effects of a 10 percent fare increase to \$1.10 in FY 1996-97, followed by an additional approximately 10 percent increase to \$1.20 in FY 2001-02, and a 15 percent fare increase to \$1.15 in FY 1996-97, followed by an additional approximately 15 percent increase to \$1.30 in FY 2001-02, factoring in ridership loss at the DOT-projected rate in FY 1996-97, and assuming flat ridership after that point. It should be noted that these estimates are extremely rough, using MUNI's total revenue figure as the base amount, without regard to the differing types of fares paid that make up that base, in addition to the various assumptions listed above.

Table 9: Annual Projected Revenues from Fare Increases

Fiscal Year	Current Base Fare Projection	With 10% Increase From Base	Amount of Increase From Base	With 15% Increase From Base	Amount of Increase From Base
FY 1996-97	\$91,479,000	\$100,352,463	\$8,873,463	\$101,084,295	\$9,605,295
FY 1997-98	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 1998-99	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 1999-00	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 2000-01	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 2001-02	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2002-03	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2003-04	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2004-05	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2005-06	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939

SUMMARY OF REVENUE POTENTIAL OF FUNDING SOURCES

A comparison of the projected revenue streams that could be generated by the dedicated funding sources examined in this report with our estimates of the MUNI operating deficit (with and without the current General Fund contribution) is presented in Table 10 on the following page. It should be noted that Table 10 presents all revenues sources based on what they would generate if implemented from the beginning of FY 1996-97; if implementation of any new revenue source were delayed, some portion of these revenues would not be available.

The Budget Analyst was asked to identify potential dedicated revenues sources for MUNI; therefore reductions in operating expenditures are not a part of this analysis. Clearly, some combination of measures may need to be taken to address MUNI's long term operating deficit. In addition, as noted above, MUNI's funding requirements to balance their budget and to meet scheduled service may be higher than existing, already-projected deficits. In particular, Table 10 shows that none of the potential sources of revenue examined in this report, with the possible exception of a citywide assessment district, would, by themselves, raise sufficient revenue to both eliminate the projected operating deficit and replace the current General Fund contribution to MUNI. We also wish to direct the reader's attention to the implementation procedures which are described earlier in this report for each revenue source, as many of the options would require approval by two-thirds of San Francisco voters. This report provides a resource for policy makers by identifying and quantifying potential dedicated revenue sources for MUNI.

Table 10: Comparison of Alternative Revenue Options With Projected Deficit

PROJECTED DEFICIT VS. ALTERNATIVE REVENUE OPTIONS	FISCAL YEAR		1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
			1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Projected Deficit:												
Muni Funding Needs			7,159,000	13,534,000	20,202,000	27,244,000	33,722,000	40,397,000	46,526,000	52,873,000	59,333,000	66,046,000
General Fund Included			44,017,000	51,701,000	59,685,000	68,109,000	76,017,000	84,172,000	91,834,000	99,766,000	107,867,000	116,279,000
General Fund Removed												
Alternative Revenue Options:												
Local Sales Tax Increase			24,109,500	25,576,500	26,934,000	28,364,000	29,870,000	31,456,000	33,126,000	34,885,000	36,737,000	39,371,000
Quarter Cent			48,219,000	51,153,000	53,868,000	56,728,000	59,740,000	62,912,000	66,252,000	69,770,000	73,474,000	78,742,000
Half Cent												
BART Tax Allocation Increase			3,994,975	4,238,900	4,508,800	4,773,450	5,053,750	5,350,525	5,664,975	5,997,950	6,350,625	6,879,600
2.5 percent			7,989,950	8,517,800	9,017,600	9,546,900	10,107,500	10,701,050	11,329,950	11,995,900	12,701,250	13,759,200
5 percent												
Vehicle Fee Surcharges			8,022,275	8,273,100	8,534,758	8,807,708	9,092,448	9,389,424	9,699,193	10,022,272	10,366,630	10,710,595
Downtown Assessment District			33,933,740	35,121,421	36,350,671	37,622,944	38,939,747	40,302,638	41,713,231	43,173,231	44,684,255	46,248,204
Citywide Assessment District			Up to full deficit amount		"	"	"	"	"	"	"	"
Bay Bridge Toll \$1 Increase			11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219
County Gas Tax			2,916,986	2,830,935	2,747,423	2,666,374	2,587,716	2,511,378	2,437,292	2,365,392	2,295,613	2,227,893
1 cent per gallon			13,855,685	13,446,942	13,050,258	12,665,275	12,291,649	11,929,046	11,577,139	11,235,613	10,904,163	10,582,490
5 cents per gallon												
Regional Gas Tax				27,033,000	26,197,000	25,386,000	24,637,000	23,910,000	23,205,000	22,519,000	21,854,000	21,239,000
10 cents per gallon												
Dedication of Possible Airport Payment to MUNI			No estimate available at this time			"	"	"	"	"	"	"
MUNI Fare Increases			8,873,463	8,873,463	8,873,463	8,873,463	8,873,463	18,908,709	18,908,709	18,908,709	18,908,709	18,908,709
10 percent			9,605,295	9,605,295	9,605,295	9,605,295	9,605,295	24,767,939	24,767,939	24,767,939	24,767,939	24,767,939
15 percent												

BUDGET ANALYST'S DEFICIT PROJECTION

This Appendix outlines the overall funding needs of MUNI, taking into account several factors which will affect the agency's projected revenue and budget needs, in order to arrive at an estimate of the deficit facing the MUNI system and of the amount of funds which would need to be raised by a dedicated funding source. MUNI's own projections of revenues, expenditures, and expected deficits, as included in its Short-Range Transit Plan (SRTP), completed in October of 1995, are shown in Tables 12 and 13. The Budget Analyst's projections, shown in Table 11, use somewhat more conservative projections for inflation rates, for labor increases, and for some revenue sources. Background information on funding sources, expenses, and projected rates of increase, is given below.

In each of the last five years, MUNI has incurred a substantial operating deficit, and has been granted supplemental appropriations ranging up to \$8 million. An operating deficit is likely to recur in MUNI's FY 1995-96 budget. The Budget Analyst previously estimated that the Platform Salaries item in the FY 1995-96 budget could be underfunded by up to \$2.5 million. The FY 1995-96 budget included an assumption that this \$2.5 million could be saved through operating efficiencies during the year, but in practice the operating deficit is made up largely through missed service. In addition, MUNI typically experiences deficiencies in its Materials and Supplies budget, in Workers Compensation, and in other areas.

MUNI officials currently estimate that the FY 1995-96 budget is underfunded by \$2 to \$9 million, and expect to request a supplemental appropriation to balance the budget. In addition, MUNI officials have stated that an additional \$6 million annually would be required to meet scheduled service. Finally, MUNI states that an additional estimated \$3 million annually is needed to improve MUNI's administrative and management capacity as recommended by State and Federal funding agencies, which brings the total to \$11 to \$18 million in additional funds which might be required to balance the budget, meet scheduled service and address administrative inadequacies in FY 1995-96. (See Appendix IV.) If MUNI prepares updated projections of its funding needs to meet scheduled service levels in the future, we would be pleased to review such data for the Board of Supervisors. Our expenditure estimates use MUNI's approved FY 1995-96 budget as the starting point for our projections, as do MUNI's own projections contained in the SRTP.

Assumptions Regarding MUNI Expenditures

Projected MUNI operating expenses, as detailed in the SRTP and shown in Table 12, assume that operating expenses for most items will rise by 4 percent annually, based on a regional inflation projection at that rate. Other sources, including the Metropolitan Transportation Commission and the Center for the Continuing Study of the California Economy, currently project that inflation will rise at a rate of 3.5 percent per year. The Budget Analyst has used in this lower 3.5 percent rate of inflation in most cases for the projections shown in Table 11.

MUNI currently shows annual operating expenditures of \$281 million, of which 76 percent is for labor costs in 1995-96. MUNI's projection in the SRTP assumes that there will be no changes in labor contracts other than 4 percent annual increases keeping pace with inflation for the next ten years. Over the five year period from 1990 to 1995, MUNI's overall salary spending, including regular, overtime, and other types of pay, has increased by 8.4 percent, or an average of 1.68 percent annually (MUNI has experienced an overall decrease in staffing during this period). Over the same time period, fringe benefit costs, including payments to the MUNI Trust Fund, have dropped by 14.6 percent, due primarily to reduced employee retirement contribution rates. Workers Compensation costs have increased by 82 percent.

The Budget Analyst's projections of MUNI's operating costs, as shown in Table 11, begin with MUNI's approved budget for FY 1995-96, and assume that rather than all labor costs increasing by 4 percent annually as projected in the SRTP, that costs are held to the rate of inflation at 3.5 percent. All other operating costs in the Budget Analyst's projection, with the exception of equipment lease payments which are scheduled to end in FY 1997-98 (SFMRIC) are also shown increasing at an inflation rate of 3.5 percent annually.

Assumptions Regarding MUNI Revenues

On the revenue side, MUNI's projections, shown in Table 13, predict that Federal operating assistance will go to zero, that State and regional funds, many of which are dependent on gas and sales taxes, such as TDA and AB1107 funds, will grow at 4 percent annually, and that local funding sources, such as General Fund revenues and parking revenues, will also increase at 4 percent annually. The Budget Analyst has used a 3.5 percent growth rate for projections of gas and sales-tax dependent sources of revenue, and for the General Fund. In addition, MUNI has projected parking ticket and meter revenue growing at 4 percent annually. Based on information from the Department of Parking and Traffic, the Budget Analyst has used a more conservative projection of 2 percent annual growth for this revenue source.

General Fund Contribution and Parking Revenues

As noted earlier in this report, members of the Board of Supervisors have expressed an interest in completely replacing the General Fund with a dedicated revenue source. The General Fund contribution could go to zero if a stable revenue source were found to replace it. MUNI currently shows General Fund revenues allocated to MUNI growing at approximately 4 percent per year. At minimum, a new, dedicated MUNI revenue source would need to be designed to be able to generate increasing revenues at a rate of 3.5 to 4 percent annually in order to be able to replace the General Fund in MUNI's current financial plan. In addition, projections of MUNI's revenues and expenditures show a growing operating deficit due to rising costs and flattening revenues. This deficit must be met by either increasing revenues, decreasing expenditures, or both.

In FY 1991-92, General Fund support for MUNI was approximately \$120,000,000, or 45 percent of the agency's operating revenues. In FY 1994-95, following the passage of Proposition M, a portion of San Francisco's parking revenues was dedicated to MUNI, replacing General Fund revenues in the MUNI budget. MUNI will receive \$36,611,000 from the General Fund per se in FY 1995-96, which is 12.7 percent of the agency's operating revenues, and an amount of \$76,955,000, or 27.4 percent of its operating revenues, from parking revenues. Taken together, General Fund revenues and parking revenues currently account for approximately 40.1 percent of MUNI's operating budget, a slight increase over FY 1994-95, when these two sources accounted for 38.9 percent of the operating budget.

MUNI projections currently show parking revenues growing at 4 percent per year. DPT has not specifically forecast projected fine or meter revenues past FY 1995-96, however, according to DPT, because this revenue source is primarily dependent on the number of parking tickets issued, which has been decreasing, and on the amount of the fines, this revenue source is likely to remain flat, or to increase only slightly as new technology improves the collection rate of tickets and cuts DPT's administrative costs, unless the City acts to increase parking fines and meter rates. As such, the Budget Analyst's projections shown in Table 11 below show parking revenue growing at a slower rate of 2 percent annually.

It should also be noted that if Proposition H passes in November of 1995, DPT projects that parking fine revenues available to MUNI will drop by \$21 to \$25 million annually, due to fee rollbacks.

Fares

Over the last three years, MUNI ridership has been decreasing at a rate of 3.6 percent per year, with overall fare revenue decreasing despite offsets from fare increases during the period. MUNI is currently engaged in a marketing study to attract and maintain new and former riders to the system. MUNI shows fare revenues not increasing in the future from the FY 1995-96 level of \$90,805,000, plus \$674,000 in paratransit fares, for a total of \$91,479,000, which is approximately 32.5 percent of operating revenues. The Budget Analyst has used this projection of flat revenues from fares in Table 11, and has also estimated the revenues which could be generated from fare increases, as shown in Section 3 of this report.

Proposition B Sales tax operating funds

MUNI shows Proposition B sales tax funding increasing by 4 percent annually. MUNI's current allocation for operating support from this source is \$4,477,000, or approximately 1.6 percent of operating revenues. As noted above, the Budget Analyst has projected this revenue source increasing by a more conservative 3.5 percent annually.

Regional and State sources

AB1107 AB1107 funds are generated from a 1/2 cent sales tax instituted in the BART counties, which are Alameda, Contra Costa, San Francisco, and San Mateo. BART gets 75 percent of the revenue generated from this source, and 25 percent is allocated among the counties by MTC. This 25 percent discretionary fund has historically been divided between MUNI and AC Transit.

State Transit Assistance Act (STA) STA funds are generated through the state taxes on gasoline and diesel fuel, and are allocated by the legislature to transit operators through a formula that rewards performance in generating high levels of combined fare and local tax revenue support. Funding levels from this source are dependent on the State legislature's allocation of funds to the program, which have varied widely in recent years. MUNI's current allocation from this source is approximately \$6 million, or 2.2 percent of operating revenues.

Transit Development Assistance (TDA) MUNI reports that the State legislature has recently reallocated additional funds from this source, which is provided from statewide gas tax revenues, to Los Angeles County. If the State continues such reallocations in future fiscal years, MUNI's share of funding from this source could be at risk. MUNI reports that the City could lose at much as \$17 million from this source in the next fiscal year.

Federal Sources

The Federal Transit Administration subsidizes transit system operating costs under Section 9 and Section 8 of the Urban Mass Transportation Act (UMTA). Federal operating subsidies to MUNI have dropped about \$2.5 million from 1990-91 to the present. MUNI projects that Federal operating subsidies will drop to zero soon in the Federal budget balancing process, at least by FY 2001-02, and possibly sooner. Federal subsidies now represent around 2.3 percent of MUNI's operating revenues, with the current allocation at \$6.6 million.

Capital Program

MUNI's capital program for the next five years shows programmed expenditures of approximately \$900 million, assumes \$571 million in Federal matching funds, and requires \$330 million in local, state and regional matching funds. At this point, adequate local matching funds are programmed from state bonds, the San Francisco Municipal Railway Improvement Corporation (SFMRIC), Transit Impact Development Fees (TIDF), and sales tax funds. However, Federal budget balancing efforts, the failure of new State bond measures in 1994 and other State funding shortfalls for transportation make it likely that Federal and State funding for transit capital programs may be significantly delayed or reduced from currently programmed levels. Such delays or reductions would affect MUNI's plans to replace aging vehicles, and to complete service expansions and improvements which are planned. Finally, the ability to carry out other, longer range capital programs, such as replacement of MUNI maintenance and revenue-handling facilities, development of the Third Street corridor, and construction of the Metro East LRV facility, are in doubt.

Conclusions

Table 11 shows the Budget Analyst's projection of MUNI operating revenues and expenses, and concludes with projections of MUNI's operating deficits, with and without continued General Fund support. Table 12 shows baseline operating expenditure projections developed by MUNI, and Table 13 shows operating revenue and deficit projections developed by MUNI.

It is unlikely that Federal or State operating funds to transit agencies will increase over the current projections outlined above in the next five years. The State Legislature and Governor have not fully funded existing programs such as STA, and new sources of both operating and capital funds for transit have not been popular with either the Legislature or the public. The failure of rail and transportation bond issues on the ballot in 1994 have already made it unlikely that the State will be able to fully fund capital projects which have been prioritized for several years.

As described above, and shown in the attached budget projections, MUNI's projected operating deficit rises from a minimum of approximately \$7.1 million in FY 1996-97 to over \$27 million in FY 1999-00 and higher in the out years. If the General Fund contribution is eliminated, the projected FY 1996-97 deficit would be approximately \$44 million, rising to over \$68 million in FY 1999-00 and proportionately higher in the out years.

Table 11: Budget Analyst Projections of MUNI Operating Revenues and Expenses

Operating Expenses	1994-95 Actuals	1995-96 Budget	1996-97 Projection	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<i>Personnel</i>												
Misc. employees	67,825	70,488	72,955	75,509	78,151	80,887	83,718	86,648	89,680	92,819	96,068	99,430
Platform	87,028	86,571	89,601	92,737	95,983	99,342	102,819	106,418	110,142	113,997	117,987	122,117
Premium pay	2,422	2,419	2,504	2,591	2,682	2,776	2,873	2,974	3,078	3,185	3,297	3,412
Temporary	950	948	981	1,016	1,051	1,088	1,126	1,165	1,206	1,248	1,292	1,337
Overtime/holiday	4,001	3,467	3,588	3,714	3,844	3,978	4,118	4,262	4,411	4,565	4,725	4,891
Fringe benefits	28,526	29,653	30,691	31,765	32,877	34,027	35,218	36,451	37,727	39,047	40,414	41,828
MUNI Trust Fund	11,379	13,850	14,335	14,836	15,356	15,893	16,449	17,025	17,621	18,238	18,876	19,537
Workers Compensation	9,448	7,472	7,734	8,004	8,284	8,574	8,874	9,185	9,506	9,839	10,184	10,540
<i>Sub-Total Personnel</i>	<i>211,579</i>	<i>214,868</i>	<i>222,388</i>	<i>230,172</i>	<i>238,228</i>	<i>246,566</i>	<i>255,196</i>	<i>264,128</i>	<i>273,372</i>	<i>282,940</i>	<i>292,843</i>	<i>303,093</i>
<i>Non-Personnel</i>												
Contractual Services	6,640	8,072	8,355	8,647	8,950	9,263	9,587	9,923	10,270	10,629	11,001	11,386
Paratransit Services	9,346	10,640	11,012	11,398	11,797	12,210	12,637	13,079	13,537	14,011	14,501	15,009
Fixed Charges	3,698	3,766	3,898	4,034	4,175	4,322	4,473	4,629	4,791	4,959	5,133	5,312
Judgements and Claims	9,051	8,987	9,302	9,627	9,964	10,313	10,674	11,047	11,434	11,834	12,248	12,677
Property Rental	1,121	1,152	1,192	1,234	1,277	1,322	1,368	1,416	1,466	1,517	1,570	1,625
Insurance	375	355	367	380	394	407	422	436	452	467	484	501
Materials and Supplies	15,332	14,763	15,280	15,814	16,368	16,941	17,534	18,147	18,783	19,440	20,120	20,825
Fuel	4,019	4,602	4,763	4,930	5,102	5,281	5,466	5,657	5,855	6,060	6,272	6,492
Tires	1,943	1,989	2,059	2,131	2,205	2,282	2,362	2,445	2,531	2,619	2,711	2,806
Utilities	3,067	3,272	3,387	3,505	3,628	3,755	3,886	4,022	4,163	4,309	4,459	4,615
Services of Other Depar	4,710	4,015	4,156	4,301	4,452	4,607	4,769	4,935	5,108	5,287	5,472	5,664
PTC	1,774	1,828	1,892	1,958	2,027	2,098	2,171	2,247	2,326	2,407	2,491	2,579
Purchaser	458	457	473	490	507	524	543	562	581	602	623	645
Other	721	785	812	841	870	901	932	965	999	1,034	1,070	1,107
<i>Sub-total Non-Personnel</i>	<i>62,255</i>	<i>64,683</i>	<i>66,947</i>	<i>69,290</i>	<i>71,715</i>	<i>74,225</i>	<i>76,823</i>	<i>79,512</i>	<i>82,295</i>	<i>85,175</i>	<i>88,156</i>	<i>91,242</i>
<i>Financing</i>												
SEMRIC	2,108	2,002	1,925	0	0	0	0	0	0	0	0	0
Facilities Capital	655	164	170	176	182	188	195	202	209	216	224	231
<i>Sub-total Financing</i>	<i>2,763</i>	<i>2,166</i>	<i>2,095</i>	<i>176</i>	<i>182</i>	<i>188</i>	<i>195</i>	<i>202</i>	<i>209</i>	<i>216</i>	<i>224</i>	<i>231</i>
Total Expenses	276,597	281,717	291,430	299,638	310,125	320,979	332,214	343,841	355,876	368,331	381,223	394,566
Operating Deficit												
Including GF Funds		(899)	(7,159)	(13,554)	(20,202)	(27,244)	(33,722)	(40,397)	(46,526)	(52,873)	(59,333)	(66,046)
Operating Deficit												
IF GF Funds are Removed			(44,017)	(51,701)	(59,685)	(68,109)	(76,017)	(84,172)	(91,834)	(99,766)	(107,867)	(116,279)

All numbers shown in '000s

Table 11: Budget Analyst Projections of MUNI Operating Revenues and Expenses

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Operating Revenues	Actuals	Budget	Projected									
*Passenger Fares	92,795	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805
*Paratransit Fares	652	674	674	674	674	674	674	674	674	674	674	674
Advertising	2,454	2,562	2,652	2,744	2,841	2,940	3,043	3,149	3,260	3,374	3,492	3,614
Miscellaneous Revenue	634	480	497	514	532	551	570	590	611	632	654	677
**Federal Subvention	5,769	5,322	4,790	4,311	3,018	1,509	754	0	0	0	0	0
Bridge tolls (SFRMIC)	2,285	2,002	1,925	0	0	0	0	0	0	0	0	0
State & Regional Subv.	42,017	47,720	49,390	51,119	52,908	54,760	56,676	58,660	60,713	62,838	65,037	67,314
STA Paratransit	497	514	532	551	570	590	610	632	654	677	701	725
BART ADA	632	754	780	808	836	865	896	927	959	993	1,028	1,064
SFTA Sales Tax	4,362	4,477	4,634	4,796	4,964	5,137	5,317	5,503	5,696	5,895	6,102	6,315
***TIDF	6,518	4,637	3,645	2,654	2,420	2,211	2,023	1,856	1,707	1,576	1,576	1,576
Commission on Aging	942	575	595	616	638	660	683	707	732	757	784	811
Hetch Hetchy	7,730	7,730	8,001	8,281	8,570	8,870	9,181	9,502	9,835	10,179	10,535	10,904
General Fund	40,089	35,611	36,857	38,147	39,483	40,864	42,295	43,775	45,307	46,893	48,534	50,233
Parking Revenues	71,408	76,955	78,494	80,064	81,665	83,299	84,965	86,664	88,397	90,165	91,968	93,808
Total Revenues	278,784	280,818	284,271	286,084	289,923	293,735	298,492	303,444	309,349	315,458	321,890	328,519

*No fare increases are assumed for passenger and paratransit fares

**Federal subvention will decrease by 10% in 96-97 and 97-98, then 30 %, then 50 %, to zero

***TIDF assumption is \$1.0 m annual decrease in operating assistances through 97-98, then 10 % reduction per year

BASELINE OPERATING EXPENDITURES PROJECTIONS (in 000's)

Expense Category	Actual Expenditure 1994-95	Adopted Budget 1995-96	Change 95 to 96	PROJECTIONS										
				1995-96	1996-97	1997-98	1998-99	1999-00	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	
Miscellaneous	\$87,825	\$70,808	\$2,983	\$73,640	\$76,586	\$79,649	\$82,835	\$86,149	\$89,595	\$93,178	\$96,906	\$100,782		
Platform		86,571	(457)	90,034	93,635	97,381	101,276	105,327	109,540	113,922	118,478	123,218		
Premium Pay (misc. only)	2,422	2,419	(3)	2,516	2,616	2,721	2,830	2,943	3,061	3,183	3,311	3,443		
Temporary	950	948	(2)	986	1,025	1,066	1,109	1,153	1,200	1,248	1,297	1,349		
Overtime/holiday	4,001	3,467	(534)	3,606	3,750	3,900	4,056	4,218	4,387	4,562	4,745	4,935		
In-Lieu Pay	0	0	0	0	0	0	0	0	0	0	0	0		
TOTAL LABOR	162,226	164,213	1,987	170,782	177,613	184,717	192,106	199,790	207,782	216,093	224,737	233,726		
Fringe Benefits	28,526	29,174	648	30,341	31,555	32,817	34,129	35,495	36,914	38,391	39,927	41,524		
Total Fund	11,379	13,850	2,471	14,404	14,980	15,579	16,203	16,851	17,525	18,226	18,955	19,713		
TOTAL BENEFITS	39,905	43,024	3,119	44,745	46,535	48,396	50,332	52,345	54,439	56,617	58,881	61,237		
Workers' Compensation	9,448	7,472	(1,976)	7,771	8,082	8,405	8,741	9,091	9,454	9,833	10,226	10,635		
TOTAL PERSONNEL	211,679	214,709	3,130	223,297	232,229	241,518	251,179	261,226	271,675	282,542	293,844	305,698		
Contractual Services	6,640	8,072	1,432	8,395	8,731	9,080	9,443	9,821	10,214	10,622	11,047	11,489		
Paratransit Services	9,348	10,640	1,294	11,066	11,508	11,969	12,447	12,945	13,463	14,002	14,562	15,144		
Fixed Charges	3,698	3,766	68	3,917	4,073	4,236	4,406	4,582	4,765	4,956	5,154	5,360		
Judgements & Claims	9,051	8,987	(64)	9,346	9,720	10,109	10,514	10,934	11,371	11,826	12,299	12,791		
Property Rental	1,121	1,152	31	1,198	1,246	1,296	1,348	1,402	1,458	1,516	1,577	1,640		
Insurance	375	355	(20)	369	384	399	415	432	449	467	486	505		
Materials & Supplies	15,332	14,763	(569)	15,354	15,968	16,506	17,271	17,961	18,680	19,427	20,204	21,012		
Fuel	4,019	4,602	583	4,786	4,978	5,177	5,384	5,599	5,823	6,056	6,298	6,550		
Tires	1,943	1,989	46	2,059	2,151	2,237	2,327	2,420	2,517	2,617	2,722	2,831		
Utilities	3,067	3,272	205	3,403	3,539	3,681	3,828	3,981	4,140	4,306	4,478	4,657		
Other Departments	4,710	3,275	(1,435)	3,406	3,542	3,684	3,831	3,985	4,144	4,310	4,482	4,661		
PUC	1,774	1,828	54	1,901	1,977	2,056	2,139	2,224	2,313	2,406	2,502	2,602		
Purchaser	458	457	(1)	475	494	514	535	556	578	601	625	650		
Other	721	785	64	816	849	883	918	955	993	1,033	1,074	1,117		
TOTAL NON-PERSONNEL	62,255	63,943	1,688	66,501	69,161	71,927	74,804	77,796	80,908	84,145	87,510	91,011		
SUBTOTAL	273,834	278,652	4,818	289,798	301,390	313,446	325,983	339,023	352,584	366,687	381,355	396,609		
SFARC	2,108	2,002	(106)	1,925	0	0	0	0	0	0	0	0		
Facilities Capital	655	164	(491)	177	184	192	200	208	216	224	233	243		
Clean On-Time	0	0	0	0	0	0	0	0	0	0	0	0		
TOTAL	276,597	280,818	4,221	291,894	301,667	313,630	326,176	339,222	352,791	366,903	381,579	396,842		

SOURCES:

1. For 1994-95 expenses, 105 report as of 08/18/95 (final close).
2. For 1995-96 expenses, Phase D Board approved final budget.

TABLE 5.7
MUNICIPAL RAILWAY OPERATING REVENUE PROJECTIONS
(IN THOUSANDS)

Revenue Category	ACTUAL 1994-95	ADOPTED 1995-96	CHANGE 1995-96	FUTURE YEAR PROJECTIONS										
				1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	*All categories inflated at 4% per year except for * Items explained below.	
Passenger Fares*	\$92,795	\$90,805	(\$1,990)	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805	\$90,805
Paratransit Fares*	652	674	22	674	674	674	674	674	674	674	674	674	674	674
Advertising	2,454	2,562	108	2,664	2,771	2,882	2,997	3,117	3,242	3,371	3,506	3,647	3,647	3,647
Misc. Revenue	634	480	(154)	499	519	540	562	584	607	632	657	683	683	683
Federal Subvention*	5,769	5,322	(447)	4,790	4,311	3,018	1,509	754	0	0	0	0	0	0
Capital Subvent(SFMRIC)	2,285	2,002	(283)	1,925	0	0	0	0	0	0	0	0	0	0
State & Regional Subvent	42,017	47,720	5,703	49,629	51,614	53,679	55,826	58,059	60,381	62,796	65,308	67,920	67,920	67,920
STA Paratransit	497	514	17	535	558	578	601	625	650	676	703	732	732	732
BART ADA	832	764	(68)	784	816	848	882	917	954	992	1,032	1,073	1,073	1,073
SFTA Sales Tax	4,362	4,477	115	4,656	4,842	5,036	5,237	5,447	5,665	5,891	6,127	6,372	6,372	6,372
TIDF*	6,518	4,637	(1,881)	3,645	2,654	2,420	2,211	2,023	1,856	1,707	1,576	1,458	1,458	1,458
Commission on Aging	942	575	(367)	598	622	647	673	700	728	757	787	818	818	818
Hetchy/Water Subvention	7,730	7,730	0	8,039	8,361	8,695	9,043	9,405	9,781	10,172	10,579	11,002	11,002	11,002
Subtotal	\$167,287	\$169,252	\$865	\$169,243	\$168,545	\$169,821	\$171,020	\$173,110	\$175,343	\$178,474	\$181,754	\$185,185	\$185,185	\$185,185
City General Fund	40,089	35,611	(4,478)	37,035	38,517	40,058	41,660	43,326	45,059	46,862	48,736	50,686	50,686	50,686
Parking Revenues	71,408	76,955	5,547	80,033	83,235	86,564	90,026	93,628	97,373	101,268	105,318	109,531	109,531	109,531
Subtotal	\$111,497	\$112,566	\$1,069	\$117,069	\$121,751	\$126,621	\$131,686	\$136,954	\$142,432	\$148,129	\$154,054	\$160,217	\$160,217	\$160,217
REVENUE TOTAL	\$278,784	\$280,818	\$2,034	\$286,312	\$290,296	\$296,443	\$302,706	\$310,064	\$317,775	\$326,604	\$335,809	\$345,402	\$345,402	\$345,402
EXPENSE TOTAL	\$278,768	\$281,412	\$2,644	\$292,511	\$302,210	\$308,316	\$320,649	\$333,475	\$346,814	\$360,687	\$375,114	\$390,119	\$390,119	\$390,119
Surplus/(Deficit)	\$16	(\$594)	(\$610)	(\$6,199)	(\$11,914)	(\$11,873)	(\$17,943)	(\$23,411)	(\$29,039)	(\$34,083)	(\$39,305)	(\$44,717)	(\$44,717)	(\$44,717)

* Passenger & Paratransit fares: No increase projected at this time.
 * Federal Subvention: Assumes 10% reduction in 95-96 & 97-98, 30% in 98-99, 50% in 99-00, to zero in 00-01.
 These estimates are subject to the federal budget process, and may be revised substantially.
 *TIDF: Assumes \$1.0 million annual decrease in operating assistance through 1997-98, with a 10% reduction in later years.
 Portion of TIDF contribution for administrative costs will increase by 4% per year.

Short Range Transit Plan

Financial Plan

**METHODOLOGY USED FOR
CALCULATION OF VEHICLE LICENSE/REGISTRATION FEE
SURCHARGE REVENUES**

Under the State Vehicle Code, the State currently imposes a vehicle license fee (VLF) on all vehicles that use the public highways, which is equal to 2 percent of the vehicle's market value, based on the depreciated value of the vehicle. The State also imposes a \$29 vehicle registration fee on all such vehicles. The passage of AB925 authorized the City, subject to voter approval, to impose a local VLF surcharge of up to 15 percent of the State's vehicle license fee, and a \$4 vehicle registration fee surcharge, on all vehicles except for those that are expressly exempted from the payment of vehicle registration fees and commercial vehicles weighing more than 4,000 pounds unladen.

In order to project the potential revenues from implementing these surcharges, the following information was required:

1. Estimate of the typical vehicle license fee paid by vehicles registered in San Francisco, by vehicle type (automobile, motorcycle, truck, trailer).
2. Projection of the rate of growth of the typical vehicle license fee, by vehicle type.
3. Estimate of the number of registered vehicles that would be subject to the tax (i.e., excluding commercial vehicles weighing more than 4,000 pounds unladen).
4. Projection of the rate of growth of the number of registered vehicles that would be subject to the tax.

The methodology we have used to make these calculations is described below.

Estimate of the typical vehicle license fee paid by vehicles registered in San Francisco, by vehicle type (automobile, motorcycle, truck, trailer): Each calendar year, the Department of Motor Vehicles (DMV) calculates a State-wide average VLF for (a) automobiles/motorcycles, and (b) trucks/trailers. In 1994, the last full year for which the average annual VLF was calculated by the DMV, the average VLF for automobiles and motorcycles was \$105, and the average VLF for trucks and trailers was \$64. These figures were respectively used as the base VLF for future year projections. The Budget Analyst notes that the VLF in San Francisco may be higher than the State-wide averages, if there is a greater proportion of luxury vehicles registered in San Francisco than statewide. However, data pertaining directly to San Francisco is not available, so we had no basis for adjusting the average VLF.

Projection of the rate of growth of the typical vehicle license fee, by vehicle type. To estimate the annual growth rate of the average VLF, an average growth rate was calculated based on five years of historical data. The historical data indicated that the VLF increased by an average of 2.83 percent annually for automobiles/motorcycles, and decreased by 0.38 percent annually for trucks/trailers.

Estimate of the number of registered vehicles that would be subject to the tax (i.e., excluding commercial vehicles weighing more than 4,000 pounds unladen): The Department of Motor Vehicles (DMV) provides annual documentation of the number of motor vehicle registrations per county ("Estimated Fees Paid Vehicle Registrations By County"). In 1994, the DMV reported the following registrations:

Automobiles	322,445
Motorcycles	17,270
Trucks	61,227
Trailers	22,082

One provision of AB925 is that the City may not charge a surcharge on commercial vehicles which weigh more than 4,000 pounds unladen. The DMV has advised us that all trucks are commercial vehicles, and all trailers except camper trailers, and coach trailers are commercial vehicles. Statewide, 66 percent of all registered trucks weigh less than 4,000 pounds. Among trailers, 23 percent are non-commercial vehicles, and another 65 percent are commercial vehicles weighing less than 4,000 pounds. Therefore statewide 88 percent (65 percent + 23 percent) of all trailers, and 66 percent of all trucks would be subject to the VLF and VRF surcharge fees. In order to calculate the number of registered trucks and trailers in San Francisco which would be subject to the VLF and VRF surcharge fees, we have applied the statewide ratios of trucks and trailers subject to these surcharge fees to our estimate of registered trucks and trailers in San Francisco. In other words, we estimate that a base number of 40,410 trucks ($61,227 \times .66$) and 19,432 ($22,082 \times .88$) trailers would have been subject to the surcharges in 1994.

Projection of the rate of growth of the number of registered vehicles that would be subject to the tax. In order to project the growth rate of vehicles in San Francisco, the DMV provided a State-wide forecast of the growth of vehicle registrations for (1) automobiles, (2) motorcycles, (3) trucks, and (4) trailers for FY 1995-96, FY 1996-97, and FY 1997-89. These State-wide forecasts were applied to the corresponding estimated number of vehicles in San Francisco in each category in 1994.

The growth rates forecast by the DMV for FY 1997-98 were used for the remaining years: 1.46 percent increase annually for automobiles, 3.37 percent decrease annually for motorcycles, .07 percent decrease annually for trucks, and 1.09 percent decrease annually for trailers.

FINANCING EXAMPLES FROM OTHER TRANSIT AGENCIES

As part of the research for this report, the Budget Analyst contacted a sample of local transit agencies in California and other states for information regarding innovative or new dedicated funding sources for transit. We also consulted with officials of the Metropolitan Transportation Commission and the California Transit Association to identify regional, state, and national examples of innovative funding for transit operations. In general, we found that MUNI already employs most of the dedicated funding options that are used by other localities to support transit, or because of structural differences between MUNI and other systems, certain types of local transit funding are not applicable. However, there are examples of financing efforts in other jurisdictions that are useful as possible future proposals for MUNI, and as comparative standards.

The transit agencies discussed below generally have similar sources of operating support to those employed by MUNI (Federal, State and regional funds, gas and sales taxes, etc.); this Appendix only describes funding sources for these agencies which are substantially different than those employed by MUNI.

Sacramento

The Sacramento Regional Transit District (RTD), serving Sacramento and its suburbs, has researched the possibility of generating funds for transit through a county services area assessment--comparable to a citywide assessment district as discussed in Section 3 of this report. Currently, Sacramento has county service area assessments for other services, including street lighting and water quality monitoring in certain areas. However, the proposal to generate transit funds through this mechanism was not approved by the Sacramento County Board of Supervisors.

According to RTD, the agency had proposed to generate a portion of the funds which are required to bring the RTD into compliance with the Americans with Disabilities Act (ADA) through an assessment district. Funds would have been used both for operating costs and for some limited capital projects. The proposal would have generated approximately \$2.0 to \$2.5 million annually through an assessment of \$3.00 to \$4.00 per single family home, with higher assessment levels for other types of land uses, such as commercial property.

Los Angeles

The Los Angeles County Metropolitan Transportation Authority (LACMTA) has instituted two benefit assessment districts in connection with the construction of the new Metro subway system now being built in Los Angeles. The districts were established by administrative processes, and will sunset after a period of 15 years. Each encompasses an area within a 1/2 mile radius of a new station site, with one district surrounding the downtown station, effectively bringing greater downtown Los Angeles into the district, and the second district primarily consisting of a commercial area around the westernmost station in the system. Under these two districts, an assessment is levied on all "assessable square footage" within the districts, with assessment levels set at zero for the initial two year period until the stations open, increasing to 17 cents per square foot, and then increasing gradually to a level of 45 cents per square foot in the final years of the district. "Assessable square footage" for the districts has been defined to include commercial and retail property, and excludes residential property. In order to raise the capital funds necessary for the subway construction, LACMTA sold bonds anticipating the revenues to be generated by the assessment districts. With the bond financing plan, the funds to be generated under these assessment districts provided approximately \$130 million of the \$1.25 billion dollar capital cost to construct the initial segments of the subway system, and served as the major source of local matching funds for Federal funds dedicated to the subway. The LACMTA assessment districts do not provide operating funds for the transit system.

LACMTA tentative financing plans include proposals for 3 to 4 additional benefit assessment districts surrounding new subway stations as they are constructed. However, under the enabling legislation which established the authority for the LACMTA benefit assessment districts, property owners may choose to have a vote on the creation of the district. A vote is mandated if a petition signed by property owners representing at least 25 percent of the assessed valuation of property in the district is submitted, and, in the election itself, a vote of property owners representing more than 50 percent of the assessable property value may reject the district. LACMTA officials expect that 2 of the 4 possible proposed new districts will choose an election, and may reject the benefit assessment district.

In addition to the standard sources of local financing used by other transit agencies, and the benefit assessment districts described above, Los Angeles' local financing plan includes a cost-containment and revenue-generating program under which LACMTA does not own or maintain bus stops and transit kiosks and shelters throughout most of their operating territory. Stops and kiosks are maintained, and advertising on them is sold, by private companies, with some regulation by the cities and towns where stops are located. LACMTA receives some advertising revenue from this program, and does not incur the cost of maintaining bus stops and kiosks in good operating condition.

Santa Clara

Santa Clara County Transit District (SCCTD) is funded in part through a dedicated District-wide 1/2 cent sales tax which has been in place since 1976. In 1984, Santa Clara County voters approved Measure A, which instituted an additional 1/2 cent sales tax for a period of ten years to provide funds for freeway construction. In 1992, anticipating the expiration of this tax, a second Measure A was placed on the ballot to extend the 1/2 cent sales tax for a period of 20 years to provide funds primarily for transit, with some highway projects included as well. These funds would have been allocated by a separate authority, as San Francisco's Measure B funds are allocated by the San Francisco County Transportation Authority. After its passage, Santa Clara's 1992 Measure A was challenged in court, and invalidated by the California Supreme Court in 1995 because the measure had not gained a 2/3 majority vote.

Like Los Angeles, SCCTD has recently decided to have operation and maintenance of its bus shelters taken over by a media firm. The firm will be responsible for maintenance of the shelters and will sell advertising on the shelters. SCCTD reports that this program will both generate increased advertising revenues, and will cut the District's operations and maintenance costs.

Philadelphia

The Southeast Pennsylvania Public Transportation Agency, SEPTA, is a regional system serving Philadelphia and its suburbs. Part of its budget is raised through a statewide set of transportation-related taxes that have been imposed by the Pennsylvania legislature. The law that set or increased taxes for this purpose, Act 26, contains a formula which guarantees a minimum percentage of the funds raised to SEPTA, and makes some funds available to other transportation projects. In the current fiscal year, SEPTA will receive approximately \$111 million under Act 26, of which approximately \$40 million may be used for operating costs, and the remaining \$71 million supports capital projects.

The taxes established or increased by Act 26 are:

- A fee of \$1.00 per motor vehicle tire sold;
- A tax of 3 percent on motor vehicle leases;
- A tax of 2 percent on motor vehicle rentals;
- A portion of the state sales tax (amount unknown at this writing)
- A tax on utility companies of .012 percent of gross receipts

In order to receive Act 26 funds, SEPTA and other agencies are required to generate 3.33 percent of the overall amount granted in local matching funds. SEPTA raises these funds through receiving funds from counties and cities in their service area.

Portland

Portland, Oregon's Tri-County Metropolitan Transportation District of Oregon (TRIMET), serves approximately 1.2 million people in metropolitan Portland. TRIMET was created as a sub-division of the State, and was established with certain taxing powers to fund transit. Currently, TRIMET levies a tax of .6176 percent of gross payroll, which is paid by employers in the metropolitan Portland area. For FY 1995-96, this tax is estimated to raise \$92.6 million, which may be used for capital or operating costs without restriction. In addition, TRIMET currently has authority to impose, and is researching the possibility of, a business license fee, which would probably be a flat fee per employee, again paid by employers.



PUBLIC TRANSPORTATION COMMISSION
CITY AND COUNTY OF SAN FRANCISCO



M E M O R A N D U M

DATE: November 6, 1995

TO: Ms. Peg Stevensen
Ms. Eve Sternberg

THROUGH: Philip H. Adams
Director of Public Transportation

FROM: Roger Contreras, Deputy Director
Finance, Administration & Personnel

SUBJECT: DRAFT REPORT ON DEDICATED FUNDING SOURCES FOR MUNI

Thank you for the Draft Report on the above-referenced subject. We have reviewed the document carefully, including the revisions that you forwarded, and believe that for the most part it fairly addresses some of the options identified as potential dedicated funding sources for the Municipal Railway. In two specific cases, you note the unavailability of data and further point out specific problems associated with the particular approach. But even that proved to be helpful because it identified additional funding possibilities as well as their peculiar constraints.

We appreciate the opportunity to comment and welcome the opportunity to discuss this important matter with you before the report is presented to the Board of Supervisors. Our comments, listed below, are intended to serve as a guide for our discussion and help to ensure that the best possible report goes forward.

Additional Options

We believe that the approval of dedicated funding sources will be more likely if broad-based voter support is ensured. To that effect, we offer the following additional options:

1. Airport Passenger Fee (@ \$.10 per psngr = about \$4 million)
Would require a statutory change because those fees are currently restricted for aviation-related use only.
2. Parking Fee (e.g., \$1/space/day = approximately \$6.5 million)
Applied to all publicly and privately owned parking spaces in the Downtown area.
3. Special Event Cost Recovery (To be determined)
Fully, rather than partially, recover the cost of services provided for special events.

Dedicated Funding Memo
November 6, 1995
Page 2

4. Hotel Occupancy Tax (either an increase or reallocation of the existing revenue - To be determined)
5. Convention & Visitors Bureau (To be determined)

General Comments

- - Muni's funding requirements are understated because the currently approved budget provides for less than the full amount of scheduled service. We estimate that an additional \$6 million would be required to meet scheduled service.
- - The projected deficit is further understated by an amount ranging from \$2 million to \$9 million in the light of five consecutive years of supplemental appropriations to balance Muni's overall budget.
- - The cost of Muni's administrative inadequacy, not included in the current deficit calculation, is estimated to be approximately \$3 million. This is based upon mandates/requirements of external funding agencies and the loss of staffing and subsidies from Proposition M implementation (please refer to attached MTC Triennial Performance Audit recommendation #2).
- - The Budget Analyst's assumption regarding the flat and constant availability of Transportation Development Act funding may be optimistic in light of recent state allocation developments (please refer to attached MTC Topic #4 item).
- - If the sufficiency of existing funding sources is questionable, it will compromise our ability to balance the budget based upon new revenue sources and will impair our ability to meet service expectations.
- - With respect to the Capital Program, the Problem Statement does not address whether the dedicated funds are applicable to Muni's operating budget or capital program. We believe that funds obtained from dedicated revenue sources should be flexible for application to both the operating budget and capital program. In this case, Muni will continue the pay-as-you-go funding strategy for the capital program.
- - Depreciation is not included in our calculation of the projected deficit. However, a portion of funds obtained from dedicated revenue sources should be set aside to cover depreciated assets.

Dedicated Funding Memo
November 6, 1995
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- - The report indicates that the BART sales tax allocation could be revised to provide additional funding to Muni. Our analysis suggests that a more equitable allocation based upon ridership and county of (sales tax) origin would generate an additional \$10 million in the first year.
- - The funding issue should not be viewed in isolation as just a SF or Muni issue. Transit funding is a major, global issue. What are other cities and countries doing?
- - We had insufficient time to perform in-depth analyses of the Budget Analyst's calculations. To that extent, our comments are qualified.
- - Although not a part of this specific assignment, we believe that there should be some attempt to address solutions at the regional level. For example, why not suggest the formation of a task force to study this issue at the regional level so that the best possible solution can be developed in the broadest practical context and the appropriate political base/support formed.

Municipal Railway Position

Muni's operating and capital budgets are insufficient to meet current and future requirements;

Muni needs a predictable source of operating and capital funds in order to effectively plan and manage its service expectations;

The need to restore balance to the operating budget precludes realizing internal operating savings;

The sufficiency of Muni's budget must be based upon balancing the budget, restoring service and meeting federal/state/regional/local administrative and technical organizational requirements;

Alternatives presented for the Board of Supervisors' consideration should meet the criteria of being reliable and stable funding sources. Additionally, any of the alternatives should be indexed to inflation and not restrict Muni's ability to increase fares as necessary;

To accomplish any of the alternatives that require voter approval, a comprehensive ballot measure should be packaged with an accompanying investment strategy. That strategy should address what the voter will get, what Muni would do and how service would be improved if the revenue were forthcoming.

Dedicated Funding Memo
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A variety of dedicated funding sources --rather than a single one-- must be identified, including existing sources, new sources and potential changes in state and federal legislation;

Dedicated funding sources must be protected from non-transit use; and

Dedicated funding sources must be flexible, including permanent source of general funds.

cc: Arnold Baker
Kathy Gilbert
David Stumpo
Nancy Whelan
Project File
Chron

Triennial Performance Audit
of the
San Francisco Municipal Railway

FINAL AUDIT REPORT

June 1995

prepared for the
Metropolitan Transportation Commission

by

Mundle & Associates, Inc.
TRANSPORTATION MANAGEMENT CONSULTANTS

1. IMPLEMENT REDUCTIONS IN SERVICE, CONSISTENT WITH AVAILABLE RESOURCES AND COMMENSURATE WITH CURRENT RIDERSHIP.

It is obvious from this limited review that Muni is not providing reliable service. It does not have enough people to put the scheduled number of vehicles in service. Those vehicles that are in service experience frequent breakdowns, resulting in missed and sporadic service.

Muni has one of the highest per capita ridership levels of any transit system in the country. This illustrates the importance of Muni to the public. But its substandard on-street performance means that Muni is not serving the public well. Irregular service frequencies from missed service exacerbate the problem.

Muni needs to take a hard look at its available resources and determine how much service it can produce reliably and consistently. It should commit to providing this level and be accountable for it. For example, instead of scheduling service at a 15-minute headway and missing one of four trips every hour, it should schedule service every 20 minutes and commit its resources to meet this schedule. This should not be viewed as a decrease in service. Rather it is an honest admission of what Muni can deliver.

The revising of schedules and service hours should take into account the ridership declines that Muni has experienced. Muni's resources should be reallocated to reflect current patterns and ridership levels on the different lines and modes.

2. ADEQUATELY STAFF ALL DIVISIONS WITHIN THE PUBLIC TRANSPORTATION DEPARTMENT TO PERFORM KEY DUTIES.

A number of functions within Muni appear to be understaffed to meet even the most basic of responsibilities. Muni should undertake a staffing level comparison with "peer" systems. It should relate staff size to the level of service provided and determine the minimum staff requirements for all key functions. This information should be used to seek appropriate funding through the budget process. In addition to making sure there are adequate "front line" personnel such as operators and mechanics, Muni needs to have adequate personnel to provide service information to the public, process on-time performance data and other operating results collected in the field, and prepare performance reports to keep management informed of efforts to reverse Muni's current situation.

MTC METROPOLITAN TRANSPORTATION COMMISSION

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Association of
Bay Area Governments

JAMES SPERING, VICE CHAIR
Solano County and Cities

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Sonoma County and Cities

LAWRENCE D. DAHMS
Executive Director

WILLIAM F. HEIN
Deputy Executive Director

MTC/SAN FRANCISCO LUNCH MEETING

12:00 pm, Tuesday, October 10, 1995

La Mansión del Rio — Las Canarias Restaurant
112 College Street
San Antonio, Texas

AGENDA

PARTICIPANTS:

FROM MTC:

Commissioners:

Jane Baker
Jim Beall
Sharon Brown
Ed Campbell
Fred Negri
Jim Spering

Staff:

Larry Dahms
Francis Chin
Steve Heminger

FROM SAN FRANCISCO:

Board Members:

Tom Amnanio
John Ballestresos
Tom Hsieh
Willie Kennedy

Staff:

Phil Adams
Brigid Hynes-Cherin
Pam Granger

TOPICS OF MUTUAL INTEREST

1. Transbay Terminal Design
2. CalTrain Extension
3. Competition for Discretionary Funding
4. Erosion of Transit Funding Support

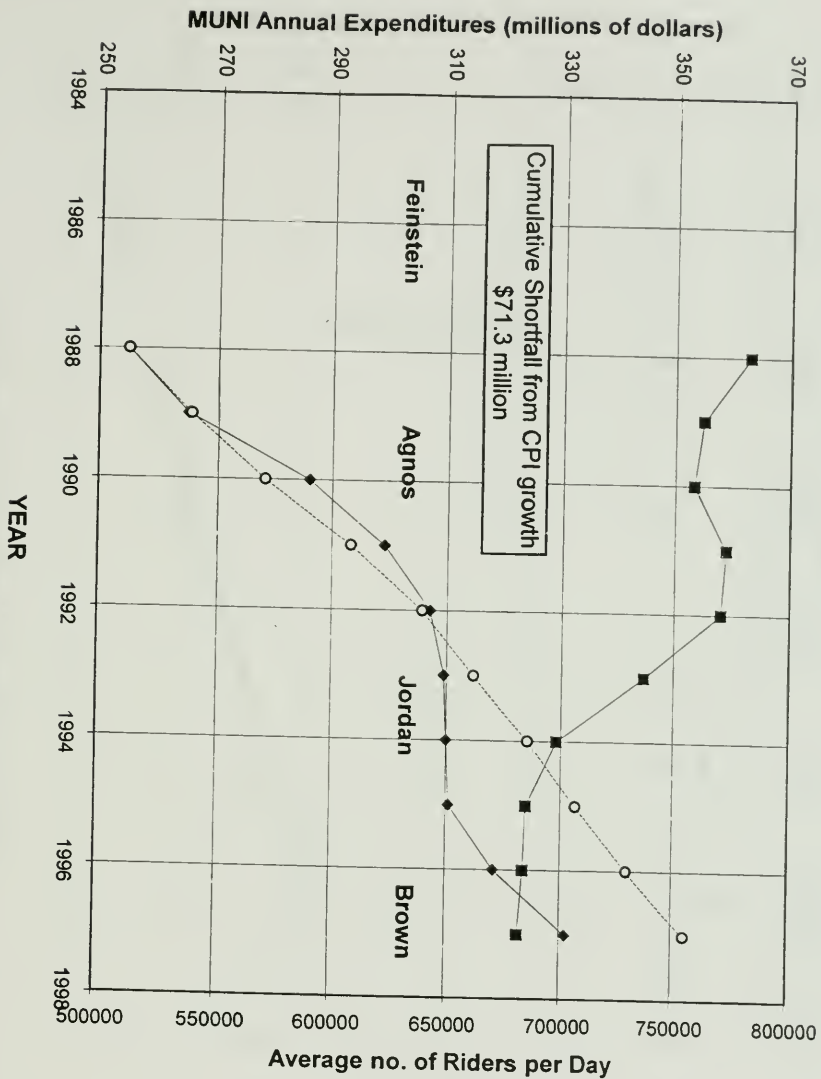
DLG:Agenda—San Francisco-10/10/95

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MTC/SAN FRANCISCO — TOPICS IN BRIEF

1. Transbay Terminal Design
 - Caltrans must retrofit the terminal to resist the next earthquake at a cost of over \$20 million.
 - San Francisco prefers to move the terminal.
 - Its location must be decided in cooperation with JPB -CalTrain extension decision.
 - RAFT and its allies seek to retain the current Transbay Terminal with trains restored to the upper deck.
 - A San Francisco Planning/Redevelopment Agency joint project involving Caltrans and the relevant transit agencies is examining the alternatives with a conclusion expected in December, 1995.
2. CalTrain Extension
 - MTC Resolution No. 1876 includes the project funded 75% locally and 25% from FTA Section 3 rail modernization.
 - An MTC led project completed in 1994 recommended a Market and Beale Station location, but left the door ajar for continued review of a Transbay Terminal location.
 - RAFT and its allies prefer the Transbay Terminal location.
 - The JPB is in the environmental review stage with the Beale and Transbay Terminal locations under consideration and is coordinating the study with the San Francisco Transbay Terminal study.
 - The Supreme Court decision casts doubt on the source of Santa Clara assistance, previously assumed to be available for electrification.
 - CalTrain supporters see the BART to SFO as threatening CalTrain improvements.
3. Competition for Discretionary Funding
 - Seismic retrofit remains unclear in San Francisco, requiring more money than may be forthcoming (i.e. Central Freeway, Embarcadero and transition structures.)
 - The Embarcadero replacement project design and cost are yet to be decided.
 - The sales tax money will not fully fund both Bay Shore and Geary Muni Metro extensions.
 - Doyle Drive is being retrofitted by Caltrans, but long sought safety improvements are still not designed or funded.
 - The Golden Gate Bridge needs more than \$100 million from the State or Federal government to add to its own funding for earthquake retrofit.
 - The source for all of this...?
4. Erosion of Transit Funding Support
 - FTA Section 9 funding has been cut in half in the past two years and is expected to be reduced to zero. Muni's loss is almost \$8 million.
 - The Los Angeles and Orange County raid on TDA funds raises the potential for a state-wide attack. Muni's loss exposure is approximately \$17 million.
 - It does not appear that the San Francisco General Fund is keeping up with expenses, let alone replacing lost revenues.
 - Muni problems are echoed in smaller amounts elsewhere in the region.
 - Transit options:
 - cut costs
 - cut service
 - raise fares
 - find new riders
 - raise revenues
 - and...

APPENDIX B



- ◆— Reported Expenditures
- 1988-97 projected growth at CPI rate
- Riders

Figure 1.--Comparison of MUNI expenditures with projected expenditures with CPI growth from 1988 on.

PRESIDIO AND GREEN DIVISION STAFFING

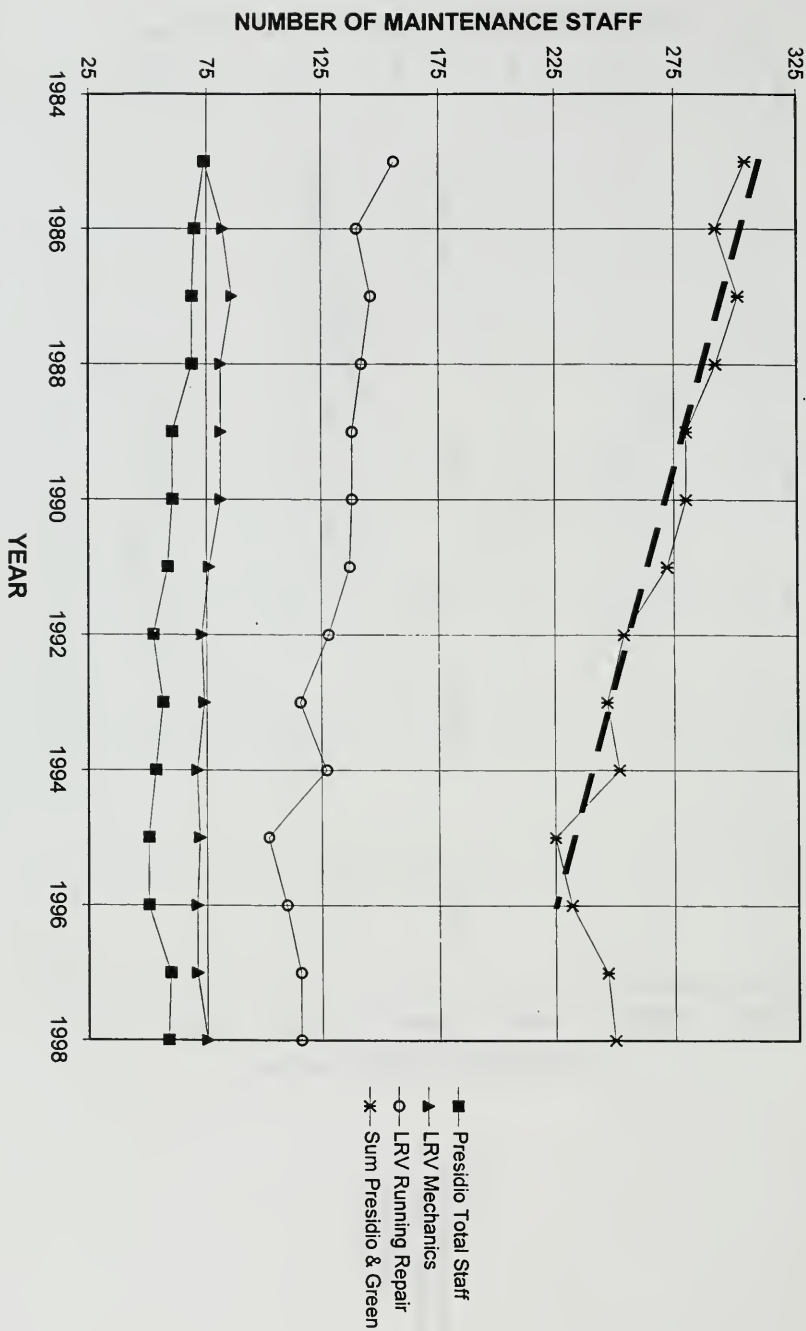


Figure 2.---Staffing for MUNI mechanics at Presidio and Green yards, 1985-1998.

APPENDIX C

A PLAN TO FIX MUNI

**A Special Report to
Mayor Willie L. Brown, Jr.**

**The New Muni Task Force
San Francisco, California
February 1999**

NEW MUNI TASK FORCE

February 11, 1999

Mayor Willie L. Brown, Jr.
City Hall
San Francisco, California

Dear Mayor Brown,

On behalf of the members of the New Muni Task Force, I am pleased to submit our final report identifying the key structural improvements required to ensure the system is restored to one of the nation's best.

In October 1998 you announced the formation of a Task Force to evaluate the structural and institutional problems which prevent Muni from providing reliable, safe, convenient and efficient transit service throughout the City. You asked me to serve as Chair and to confer with key officials and community leaders to develop a plan that would address policy making, governance, management, funding and the future potential of Muni. Included herein are the Task Force's analysis, conclusions and recommendations based on its investigations.

This report is the result of the work of thirty Task Force members, with diverse backgrounds, meeting frequently through four major "working" committees under the direction of an Executive Committee. The members of the Task Force are listed in Appendix A to this report.

This report also reflects the very important views of six transit experts from around the United States, all of whom have extensive experience in the field and most as General Managers of successful major urban transit systems. The transit experts met with the task force members over a three-day period in December. Their reports have been compiled and included as Appendix B to this report. Working together, certain key principles for governance were agreed upon for undertaking a major restructuring of the Muni organization in San Francisco and are included in Appendix D.

The Task Force has developed a very specific and comprehensive plan of realistic goals and programs which, if instituted by a dedicated board, will enable the public to see demonstrable improvements in the system during the year 2000. Based on this plan, Muni will approach a full level of performance in 2002. These specific goals and programs, with required funding and schedules, are included as Appendix C.

When we ask the question "What's wrong with Muni and how do we fix it," we need to understand that Muni's problems are not isolated conditions that can be corrected simply by demanding better performance from the commission members, general manager or employees.

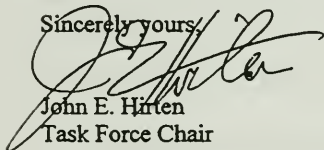
Instead there are fundamental organizational and structural problems which inhibit effective long range planning and operations, and day-to-day management.

This report presents the problems confronting Muni, describes the basic structural causes and recommends a new institutional and organization arrangement. We are proposing a reorganization plan for Muni along the lines of comparable transit organizations that successfully provide similar services in other major urban centers. This new arrangement, which follows the key principles of governance recommended by the panel of transit experts, establishes a board that will be responsible and accountable for assuring that the New Muni will function at the highest level of its capability and give San Francisco one of the finest transit systems in the United States and perhaps in the world.

I'm pleased to report that at the final meeting of the Task Force on February 10, there was unanimous approval by all members present.

The members of the Task Force stand by to assist you in implementing these recommendations.

Sincerely yours,



John E. Hirt
Task Force Chair

Task Force Members

Ray Antonio
Joe Blue
Amos Brown
James Bryant
Jim Chappell
Anni Chung
Ceasar Churchwell, DDS
Art Cimento
Jose Cisneros
Denise Collazo
Alice Fialkin
H. Welton Flynn
Barbara Kaufman
Kathleen Knox
Rick Laubscher
Tom Matoff
Gavin Newsom
Bruce Oka
Amy Quirk
John Rudolph

Arthur Shartsis
Harry Stern
Ernestine Weiss
Mike Wilmar
Michael Yaki

Ex-Officio

Maria Ayerdi
Carmen Clark
Mark Primeau
Stuart Sunshine
Sharon Saslofsky

Principal Resource

Jim Lazarus

Senior Consultant

Richard Swanson

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APPENDIX D – KEY PRINCIPLES OF GOVERNANCE

I. INTRODUCTION

A. Background

For many years, San Francisco citizens and daily transit riders have complained about the quality of San Francisco Municipal Railway ("Muni") service and have called for significant improvement. Since Mayor Willie Brown's inauguration in January, 1996, significant efforts have been made to address the well known and well-publicized operational problems experienced by Muni. While the problems are not new, their frequency and severity have been somewhat dramatized since they have occurred against the backdrop of a Mayor's campaign commitment to "fix the Muni." To the credit of the Mayor and Board of Supervisors, Muni has enjoyed substantial budget increases of approximately \$42 million during the two complete budget cycles under the Brown administration. These increases have followed a decade of systematic disinvestment in the City's transit system.

In addition to addressing Muni's financial crisis, the Mayor and the Board have taken other steps to address Muni's operational problems. Following the severe Muni Metro shut down during the transition to the Automated Train Control System in August of 1998, Mayor Brown took three important steps to address the community concerns. As a first step, he formed the Muni Council, which is composed of key City Department heads along with the Controller and the Director of the Transportation Authority; to focus on the immediate day-to-day problems of the Muni Metro system. In a second step, the Mayor and the Board of Supervisors approved a contract with the firm of Booz, Allen and Hamilton to assist in improving service within the Muni Metro system. As a third, and perhaps more significant step, the Mayor called for the formation of a "New Muni Task Force" charged with evaluating the current Muni structure affecting governance, funding and management and developing longer-term comprehensive solutions to Muni's problems. Implicit in this assignment was the clear acknowledgement that Muni's problems could not be solved through "quick fixes" and that the problems were deeply rooted in the ways in which Muni is governed, funded, managed and ultimately operated.

The Mayor appointed 30 citizens, elected officials, union representatives, Muni riders, neighborhood representatives, business persons and transit experts to this Task Force. He asked

Mr. John Hirten, a San Francisco civic leader and former federal and urban transit official, to serve as Chairperson. In addressing the assembled New Muni Task Force at its first meeting on October 29, 1998, the Mayor encouraged the Committee to be innovative, creative and to "think out of the box." He also indicated that the Task Force's findings and recommendations might find their way onto a Muni reform ballot measure in November of 1999. Such a measure would seek to eliminate conclusively many of the structural and institutional problems which dramatically inhibit Muni's ability to provide the reliable and quality transit service which is critical to the City's residents, businesses, visitors, environment and economy. The Task Force began its work in early November of 1998.

B. Purpose of Report

The purpose of this Report is to summarize and present the results of the Task Force's work. The Task Force approach generally was divided into two principal components. The first component consisted of the work performed by each of the four committees of the Task Force. These were: The Service Performance Committee, the Funding and Finance Committee, the Human Relations Committee and the Governance Committee. Each Committee had a Chairperson and between six to eight Task Force members, who voluntarily assigned themselves to work on the Committee. Each Committee established its own scope of inquiry, gathered input from Muni executive management and labor representatives and, through its own analysis and evaluation, developed findings and conclusions that, once melded together, form the basis of the recommendations of the Task Force.

The second component of the Task Force's work was to receive input from a select panel of transit experts brought in to evaluate Muni's operations, organizational and governance structure, funding situation and working environment. During a three-day period (December 7, 8 and 9, 1998) the panel worked with Task Force members to share with them its conclusions and recommendations regarding Muni, based on individual and collective experience in managing many of the largest and most successful urban transit systems in the United States. This independent, extremely knowledgeable input from the transit experts on the panel was both highly valued and very helpful to the Task Force in forming its conclusions and recommendations for change in Muni. Their report is included as Appendix B to this report.

As a result of both the independent work of the Committees and the input gained from the Expert Panel, the Executive Committee of the Task Force developed the format for this Final Report. Its purpose is to present the cumulative insights, analysis, evaluations, conclusions and recommendations developed during the course of the Task Force's work. Every effort has been made to meet the challenges laid before the Task Force when Mayor Brown outlined its mission. It is the belief of the Task Force members that our recommendations are critical to enabling Muni to regain its stature as one of the best urban transit systems in the United States. San Francisco residents and businesses deserve nothing less.

II. PROBLEM STATEMENT

A. Overview

Since the mid-1980's, San Francisco residents and businesses — those who primarily use and pay for Muni — have witnessed a slow, but inexorable, deterioration of service. This deterioration is exemplified most often by a lack of reliable and dependable service, transit vehicles (buses, trolley coaches, and particularly light rail vehicles) which often break down in the middle of service runs, employees who appear to be unresponsive to customer service concerns, an unusually high rate of absenteeism among drivers and maintenance workers and a clearly strained relationship between labor and management. The lack of dependable and reliable service has manifested itself in reduced ridership from previous levels and a frustrated, impatient and angry public that sees no measurable improvements. Although significant budget increases to the system during the last two budget cycles may have helped to arrest the deterioration, Muni is clearly perceived as not providing an acceptable level of performance. The series of audits and independent evaluations of Muni performed during the past several years underscore this perception. Perhaps most notable of these was the Proposition J mandated audit performed by the City's Budget Analyst in 1997. Other evaluations have been prepared by the Chamber of Commerce, SPUR and Rescue Muni, an independent watchdog organization composed primarily of Muni riders.

B. Problem Identification

Because of this plethora of recent analyses and evaluations of Muni's problems, this report will not dwell on or repeat the myriad of statistics that document Muni's reliability and service delivery related problems, which are available. Rather, this report will focus on the underlying institutional and structural issues, which are both the cause of the service delivery problems as well as impediments to correcting the problems. As an example, one of the most exasperating problems articulated by Muni riders is that buses (or trolley coaches, or light rail vehicles) do not arrive either at the time or with the frequency they are scheduled. When they do arrive they are either overcrowded or arrive in bumper-to-bumper "bunches" that frustrate riders dependent on timely service to get to and from work. While the specific reasons causing any particular vehicle to be late may vary, virtually all poor performance is linked to fundamental

institutional problems that result from a shortage of qualified drivers, of serviceable, safe vehicles, or of supervisors to ensure that the service is provided as planned and scheduled. Accordingly, this report will focus on the reasons underlying Muni's inability to provide sufficient drivers, mechanics, supervisory personnel, vehicles and adequate facilities in a manner conducive to reliable, safe and efficient transit service. The principal reasons, as identified by the Task Force and confirmed by the independent Transit Expert Panel, are these:

- (1) Lack of institutional accountability. Muni simply does not have the capacity or the authority to make the decisions necessary to positively impact performance. Critical issues such as budget, fares, service levels and labor related issues are determined by a shifting combination of either the Public Transportation Commission, the Board of Supervisors and/or the Mayor. Because no single governing body is fully and exclusively responsible for Muni's performance and "bottom line," there is a lack of accountability by any of the entities overseeing Muni and consequently by Muni management itself.
- (2) Lack of institutional capacity. Muni cannot guarantee or fully commit to the delivery of reliable, safe and consumer focused service simply because it does not control the processes, services and resources necessary to get the job done. Muni must be able to directly control the personnel, hiring and firing, procurement, legal service, security, contracting and financial reporting functions that are critical to its ability to perform. Dedicated expertise and continuity for each of those functions must be developed. A transit agency like Muni cannot be expected to perform well and respond quickly to problems if it does not control the functions and support services necessary to the operation. Without such control, it cannot be held accountable.
- (3) Lack of institutional and financial stability. Transit agencies, such as Muni, are required to deliver a complex series of services for hundreds of thousands of riders daily in very stressful environments and on rigid time schedules. Such an organization cannot be expected to perform optimally without some managerial and financial stability. Muni has had four different General Managers in the last 8 years. Of these, none has served significantly longer than two years. Clearly, few managerial initiatives to fix problems can survive in this kind of a "revolving door" environment. Similarly, Muni's operating

budget historically has risen or fallen based on the changing economy and priorities of the City. A significant amount of Muni's budget is not dedicated and is often raised or lowered inversely by the Board depending on the amounts received from other dedicated sources. As a consequence, no long-term, responsible financial planning can take place given the financial insecurity Muni has had to live with over the last fifteen years.

Each of these problems was identified clearly and discussed during the Committee deliberations and confirmed by each of the members of the Expert Panel. Once they were documented, the Committees turned to the task of identifying and evaluating potential solutions or alternatives to correcting them.

III. ANALYSIS AND EVALUATION

A. The Plan of Analysis

Based on a common understanding of the institutional and structural problems facing Muni which was presented in Section II, the Task Force then configured its Committee structure in a manner to both (a) evaluate the various components of the problem and, (b) develop recommendations that would focus on structural and institutional deficiencies and comprehensively address the related problems. With this goal in mind, the four committees and their work scopes were as follows:

1. Service Performance Committee

This Committee was led by Mr. Arthur Shartsis, a senior partner in the San Francisco law firm of Shartsis, Friese & Ginsburg LLP. As a previous president of the Board of Directors of the Bay Area Rapid Transit District, Mr. Shartsis is uniquely qualified to evaluate Muni's goals, structure and, perhaps more importantly, the degrees to which Muni developed its programs and applied its resources to accomplish those goals.

Once the Committee had reviewed Muni's policy directions and met with executive staff, it became clear that within Muni today not enough attention is being paid to the systematic development of prioritized goals and programs because of Muni's immediate, crisis orientation of simply getting sufficient vehicles on the street to provide as much service as possible. The Committee believes that the Muni needs to develop realistic goals and programs that would be prioritized to achieve steady improvement that would restore reliable service. Accordingly, the Committee was guided by the concept of "Realistic Goals that Lead to Reliable Service."

The Committee then developed a set of ten major goals, each of which was supported by a series of quantifiable "measures" that, if accomplished, would indicate goal achievement. In addition, the Committee developed a comprehensive set of specific "programs" that need to be undertaken in order to meet each goal. Furthermore, each program has a specific cost or budget along with a time schedule for accomplishment. The ten goals are not intended to be inclusive of

all aspects of the Muni that need improvement; rather, they represent the priority activities necessary to revitalize and rehabilitate the system.

The work of the Service Performance Committee is crucial because it defines a new "vision" statement and direction for Muni over the next five to ten years. The Committee's recommendations lay out a complete roadmap for restoring service, credibility, customer service orientation, morale and pride in being a Muni employee. Importantly, the goals and programs identify how Muni can restore service and reliability through specific actions the public can understand and follow, and become a principal communications device to the public – so that the public can clearly see where Muni is on a progressive, direct path to a system in which the public can be proud. The Committee's Goals, Measures and Programs are included as an Appendix C to this Report. It is important to note that the Committee concluded that to achieve the goals, measures and programs, the fundamental structural changes being recommended are needed.

2. Human Relations and Customer Service Committee.

This Committee was led by Ms. Anni Chung, Executive Director of Self-Help for the Elderly. Ms. Chung has been very active in civic affairs in San Francisco for many years, and is very concerned about Muni service.

This Committee focused on issues directly affecting service quality, as well as the work environment within Muni. These issues included personnel, performance evaluations, communications, customer service, training and staff morale. With respect to personnel issues, the Committee met with Muni's Personnel Director as well as operations staff to identify hiring procedures, training, employee recognition programs and performance evaluations. Similarly, in the area of customer service, the Committee met with Muni's Director of Communications and her staff and reviewed the Department of Public Work's a quality assurance program, the need for a positive organization culture and teamwork, and a pro-active customer service plan. The Committee also met with, and had strong input from, representatives of the various labor unions heavily involved with Muni operations and administration.

The Committee developed a series of findings and conclusions regarding each of these areas. They are:

a. Communication – The new Muni organization should develop an imaginative communication plan for promoting internal and external information exchange, as well as a pro-active plan to involve more community groups, businesses and schools.

b. Customer Service – Develop an organizational culture based on pride of the organization, teamwork, service delivery and performance.

c. Personnel – The new Muni needs to develop a performance evaluation process consistent with established personnel policies which integrate core values of the organization including accountability, quality control, competency and pay-for-performance measures.

d. Training – There needs to be an ongoing training program for all Muni employees focused on customer service.

e. Staff Morale – The organization's culture and morale need to be addressed in a comprehensive way, from the General Manager on down, by policy makers, management, labor, employees and the general public in these areas:

- (i) Work satisfaction and pride;
- (ii) Continuous feedback for employees;
- (iii) Employee Awards Recognition Program;
- (iv) Involvement from the public and riders to compliment employees who are courteous, safe and helpful;
- (v) Teamwork; and
- (vi) Promote safety and improve work environment.

The Committee's findings and recommendations in each of these areas are incorporated into our final report. Many of these recommendations have been integrated into the programs developed by the Service Performance Committee.

3. Funding and Finance Committee

This Committee was chaired by Ms. Carmen C. Clark, the Executive Director of the San Francisco Transportation Authority, which serves as both the County Congestion Management Agency and the Local Transportation Authority for the administration of Proposition B one-half cent sales tax funds. As of January 26, 1999, Ms. Clark is also serving as the Interim Executive Manager of Muni.

The Funding and Finance Committee began its work by developing a complete and common understanding of Muni's current and projected financial health. The Committee reviewed past budgets related to both Muni operations and capital programs. The Committee examined Muni's primary sources of revenue and how they have and are expected to change over time. Similarly, the committee evaluated Muni's major cost elements and their past trends and proportions.

Once existing revenues and expenses were evaluated, the Committee reviewed Muni's future operating and capital requirements in order to assess where the greatest financial challenges lay. The Committee concluded that, with respect to Muni's capital program, the vehicle replacement program is currently in "good shape" with most funding identified and secured in sufficient amounts to replace most of Muni's current revenue vehicles. However, the biggest existing capital problem is with Muni's antiquated and undersized maintenance facilities. Coupled with this is the lack of adequate training programs for future maintenance of new equipment. Unfortunately, facilities are also an area that is not a high priority for federal and state funding; as a result, Muni will likely be required to fund facility rehabilitation and improvement primarily with local funds unless regional and state funding priorities and formulas can be modified. Muni is working on accomplishing these changes.

With respect to the operating situation, there is a clear recognition that, while Muni still remains significantly less than fully funded, the budget increases for Muni during the last two years (cumulatively estimated at \$42 million) have helped considerably. However, significant future operating shortfalls are foreseen as service extensions into the Bayview/Third Street areas and Mission Bay demand more resources. Adding to the financial need related to higher service

is the elimination of Proposition B operating subsidies that are being used to operate capital projects (F-line and Embarcadero extensions) funded by Proposition B.

Based on this evaluation of Muni's financial capacity, several conclusions emerged. The first is that General Fund support for Muni cannot be reduced below current levels, even if other dedicated sources, such as parking revenues, increase above budgeted levels. Such General Fund reductions greatly inhibit Muni's fund raising efforts at the federal, state and regional levels. These reductions reduce the financial capacity to carry out the capital program as well as negating the positive impact of any additional outside revenues should Muni be successful in securing them.

The second conclusion is that, over time, Muni will require a significant, dedicated revenue source as a replacement for the current General Fund subsidy. The Committee discussed many alternatives including vehicle registration fees, motor vehicle fuel taxes, sales taxes and others. However, the membership recommended that alternatives for increased funding for Muni reflect the fact that non-San Francisco residents who use the Muni regularly should also bear some of the financial burden for improving the system. As a consequence, the Committee recommended that the City's business tax be used to support Muni as opposed to the General Fund. While it was recognized that the business tax contributes to the General Fund, the Committee believed there was a strong nexus between the business tax, to which all businesses contribute, and transit use since businesses largely generate home to work trips and businesses employ many non-residents who may use Muni for commute purposes.

4. Governance Committee

The Governance Committee was led by the Honorable Barbara Kaufman, a member of the Board of Supervisors. Both as a Supervisor and as recent President of the Transportation Authority, Ms. Kaufman has been a long-time participant in efforts to address Muni's problems.

The Governance Committee began by evaluating the current way in which Muni is both governed and managed in light of the findings and recommendations provided by the Transit Expert Panel in early December. The Committee began by developing and evaluating various alternatives for Muni governance and management structure. These include the four options identified below.

B. Four Organizational Options

Option 1. City Department – As currently structured in San Francisco.

This option assumes that Muni remains as a city department reporting to a five-member Public Transportation Commission, each appointed by the Mayor. The General Manager, serving as a department head, reports directly to the Mayor. Budgets, fare levels, and service (routes & stops) revisions are subject to approval of the Board of Supervisors. Other city departments provide key functions such as legal services, personnel services, procurement and security. However, because these City support departments must serve all the operating departments within the City, there has not been, at times, the responsiveness, staff continuity or transit expertise resident in those critical support departments.

This structure could be retained, thus possibly avoiding the need for charter revision. However, political accountability and responsibility for system performance would continue to be fragmented. Management would still lack the accountability and independence necessary to improve service delivery. Opportunities for bringing under Muni's control some of the functions now provided by other departments might be possible with additional funding, although Muni's continued dependence on the General Fund, a discretionary source of funding, seriously limits Muni's ability to plan its financial future with any certainty.

Option 2. City Department Controls Policy but creates Non-profit Organization to Run Operations.

This option would create a Transportation Department within the City government that would develop transportation policies and long range plans, manage procurement, and develop and implement parking and traffic plans. In addition, operations and maintenance of the entire daily transit service would be performed by a separate non-profit public corporation under contract with the City and managed by the City's Department of Transportation. This option has been used in Honolulu and in a variety of other transit agencies.

The charter could be amended in such a way that the annual budget, overall funding, fare and service policy responsibility would be set by the City, thereby providing the required protection of the public interest and assuring that the system is managed for the benefit of the citizens of San Francisco. By contrast, the operation, from the General Manager through and including all operations and maintenance personnel, would be provided by a contract with a separately created non-profit public corporation, able to react quickly to introduce new services and innovations. All permanent assets would remain City property, and equity in the corporation itself would be held by the City.

Option 3. Municipal Transit Agency.

This option would provide more autonomy and managerial scope than the present City department (Option 1), but less independence than a completely separate transit district (see Option 4 below). The Agency would have seven board members appointed by the Mayor and confirmed by the Board of Supervisors. Board members would have staggered fixed terms to assure continuity. The Agency would have the ability to control, within itself, all of the essential administrative and operational functions necessary to successfully operate Muni and that are typically found in modern, well-run transit districts and authorities. In particular, the Agency would internalize and control all labor, personnel, procurement, legal and security functions.

Key features would be:

- (a) The Agency Board would hire and fire the General Manager,
- (b) The Agency would receive a dedicated minimum percentage of the City's Business Tax, which may escalate over time,
- (c) Collective bargaining over work rules and compensation would be conducted between the Agency Board and its unions,
- (d) The Agency's operating and capital budgets would be prepared and adopted by the Agency's Board,
- (e) Fares and service plans and routes would be set by the Agency,

- (f) Agency Board members could be removed for cause by a concurrence of the Mayor and two-thirds of the Board of Supervisors,
- (g) The general counsel and internal auditor would report to the Board,
- (h) A Community Advisory Committee of fifteen members reflecting the diverse interests (ethnic, geographic, elderly, disabled community, commuters, etc.) of San Francisco citizens would be appointed by the Mayor (four members) and each member of the Board of Supervisors (eleven members) to serve for three-year terms on a rotating basis.

Option 4. Independent Transit District

Under this option Muni could be re-established, pursuant to state legislation, as an independent transit district, in the same way most larger, urban transit agencies in the U.S. and California are organized. The four other principal transit agencies operating within the City limits, (Bay Area Rapid Transit District, Alameda-Contra Costa County Transit District, San Mateo Transit District and the Golden Gate Bridge, Highway and Transportation District), are all legally independent entities – “transit districts” with Boards of Directors elected or appointed in different ways. A key structural issue here would be reconciling the City’s transit funding commitment (business tax/parking revenues/general fund/sales taxes), generated under the funding authority of a general purpose government (the City) with the administrative independence of the transit district, free of City oversight on day to day operations.

C. Evaluation Process

The Executive Committee reviewed and developed a set of criteria by which the options could be evaluated. These criteria were developed from the presentations of the Transit Experts Panel as they defined the common characteristics of a successful transit agency, referred to as “Key Principles of Governance.” They are:

- Accountability

- Relative Independence
- Stability
- Competency
- Communications

These criteria are defined and included in Appendix D of this report.

Task Force member along with the Executive Committee of the Task Force used these criteria to evaluate the four options. Each option was discussed and “pros” and “cons” were raised with regard to each option. These discussions and evaluations are summarized below:

1) Option 1 – City Department As Currently Structured

This option was not considered as a viable option because it has resulted in less than acceptable performance by Muni. Since it represents the situation the Task Force members have been assembled to “fix,” the members believe that it should not be pursued as a realistic alternative.

2) Option 2 – City Department Sets Policy; Nonprofit to Run Operations.

While, in theory, this option would represent a very viable alternative to restructuring Muni, the Task Force members concluded that the use of a contract operator for all of the Muni routes would not prove to be an acceptable structure to the City’s residents. This alternative was considered to require too extreme a change in the manner in which transit services are provided in San Francisco to be viable. However, in a city with a different history, this alternative could prove very workable and efficient.

3) Option 3 – Autonomous Municipal Transit Agency.

This option became the preferred option because it was considered to be the alternative most capable of addressing Muni's structural and functional problems without the disadvantages associated Option 4. The reasons for choosing Option 3 are detailed under Section 5, "The Plan to Fix Muni."

4) Option 4 – Special District.

The Task Force's evaluation rated Option 4 high because it is the way most well-run transit agencies today are structured – as independent transit districts. However, implementation of Option 4 would require State enabling legislation. In addition, it would remove the transit district from any City oversight or control while still requiring some \$50 - \$60 million annually from the City to help subsidize operations. The Task Force believed that these two "cons" made it unlikely that Option 4 could be implemented politically in the near term.

In summary, the Task Force believes that many of the features that Option 4 offers – independence, accountability, stability, etc. – can be captured in Option 3. These advantages were contingent upon (a) Muni being provided some form of dedicated revenue and (b) ensuring that the Board of Directors and management of the new agency are provided enough discretion and autonomy to allow it to function in the manner an independent transit district would. Based upon these conditions, Option 3 is the preferred alternative of the Task Force and is our recommendation to Mayor Brown for implementation.

IV. FINDINGS AND CONCLUSIONS

A. Findings

Based on the analysis and recommendations provided to the Task Force by the Transit Experts Panel as well as the analysis and deliberations of each of the four working committees of the Task Force, the Executive Committee and Task Force itself, the following are the findings of the Task Force:

- (1) Muni currently does not have a realistic set of goals, objectives and programs that collectively can be used to implement a comprehensive plan for improving the system and its performance. Muni's existing goals and objectives do not provide comprehensive guidance to overcome or correct pervasive operational and management problems.
- (2) Muni's governance structure, which is currently divided among the Mayor, the Public Transportation Commission and the Board of Supervisors, precludes clear accountability and responsibility for setting policy and guiding Muni to restore reliable service and public credibility. Muni's current form of governance is anachronistic and contrary in concept to principles underlying modern, well-run transit operations.
- (3) Muni's budget development and funding processes do not provide assurances that current service levels can be adequately funded either presently or in the future. Furthermore, Muni's current budget development process is not related to what is financially required to adequately fund operations and maintenance necessary to meet scheduled service. As a result, Muni's budget is chronically short of what is required to meet minimally acceptable service.

In addition, discretionary General Fund resources have been historically used as a budget "plug" amount that has been lowered and raised during the budget cycle to accommodate increases (or decreases) in other, dedicated funding. Use of, and reliance on, the General Fund in this manner both undercuts Muni's ability to secure additional outside funding, as well as guarantees that Muni's adopted budget will remain underfunded when compared to service needs.

- (4) Currently the relationship between management and labor within Muni is very strained. Productivity in the work place has correspondingly suffered with abnormally high unexcused absenteeism and worker's compensation return-to-work concerns. The adversarial atmosphere that currently exists must be corrected through revising and modernizing the ways in which labor and management interact over wages, benefits, working conditions and work rules.

B. Conclusions

In light of the comprehensive nature of the institutional, financial, governance and cultural problems facing Muni, the City must make bold and comprehensive changes before Muni can realistically embark on a path to restore service on the street, credibility with the public and internal morale and esprit for Muni employees and managers.

"Quick fixes" are not expected to be successful based on the severe problems involved. Additionally, the Task Force believes that anything short of a comprehensive approach to each of the problems articulated in this report would prove futile. Dealing with either the governance, institutional or funding issues in isolation of the others will prove ineffective. Additional funding without governance and institutional changes will result in less than optimal impact and effective use of the funding. Clearly, it is the collective opinion of the Task Force that comprehensive change is necessary and that such change is absolutely essential to meaningful and constructive improvement in Muni's service delivery ability.

V. THE PLAN TO FIX MUNI

The Task Force recommends that, in consideration of the structural and institutional problems identified in Section II and the options available for addressing these problems as presented in Section III, the Mayor, in conjunction with the Board of Supervisors should take immediate steps to implement Option 3, which would include, but not be limited to, the major elements identified below. These elements address how such issues as governance, structure, service standards, personnel matters, funding and budget preparation in a restructured Muni would be handled.

In developing the following elements, a paramount concern of the Task Force was the issue of accountability. As discussed previously in this report, the current governance structure provides little or no clear accountability for MUNI performance. In addition to focusing responsibility for Muni performance on to a single board of directors, the elements below clearly require the board to establish specific performance standards, criteria for meeting explicit service goals and measures to ensure the restoration of service schedules with reliable and safe service.

- GOVERNANCE AND DUTIES

- (1) Pursuant to a Charter Amendment, an autonomous Municipal Transit Agency would be established as an agency within the government of the City and County of San Francisco with responsibility for the development, operation and coordination of public transportation within the City and County of San Francisco. Once the Agency is established, the Municipal Railway would become a department of the Agency.
- (2) The Agency would exercise the powers and duties now vested in other departments, boards and commissions of the City and County related to the operation of the Municipal Railway and its real, personal and financial assets. The Agency could contract with existing City and County departments for providing specific services.
- (3) The Agency would have exclusive responsibility for the operation, management, maintenance, supervision, construction, extension, use and control of all property, as well as real, personal and financial assets of the Municipal Railway, provided that any contract for transit service to be provided by an independent contractor would require approval by ordinance of the Board of Supervisors.
- (4) The Agency would be governed by a seven-member Transit Agency Board of Directors appointed by the Mayor and confirmed by the Board of Supervisors. Board members would serve four-year terms with initial appointments for staggered terms so as to ensure continuity. Initial terms would be designated by the Mayor. The members of the Board must have general financial, senior management, public transportation, labor relations, labor, or other significant governmental experience. The Board shall include at least some members who are Muni riders.

- (5) The Agency would establish a Citizens Advisory Committee ("CAC") to advise the Board of Directors on matters pertaining to system reliability and performance, system safety and security, customer service, routes and stops, distribution of service, and communications with the public. The CAC would be composed of fifteen (15) San Francisco residents, eleven (11) of which are appointed by the Board of Supervisors (one per supervisor) and four (4) appointed by the Mayor. The appointments should reflect the City's ethnic, racial and geographic diversity. No fewer than ten (10) of the members would be regular Muni riders.
- (6) The current Charter provision permitting the Board of Supervisors to merge the Department of Parking and Traffic with the Department of Public Transportation shall remain in effect until, and at which time, the Board of Directors of the agency chooses to effect the merger.

- SERVICE STANDARDS, GOALS AND ACCOUNTABILITY

- (7) No later than July 1 of each year, the Agency would adopt a comprehensive set of goals, objectives and measurable performance standards for the Municipal Railway along with plans, programs and policies to achieve those goals, objectives and performance standards, all of which must effectuate the City's Transit First Policy. A recommended set of ten goals developed by the Service Performance Committee is included as Appendix C to this report.
- (8) The standards for the Agency with respect to the services provided by the Municipal Railway would include measurable standards for system reliability, system performance, staffing performance and customer service.
- (9) No later than February 1 of each year, pursuant to Proposition B as passed by the voters in November 1998, the agency would adopt and submit to the Board of Supervisors a Customer Service Plan containing a comprehensive set of goals, objectives and measurable performance standards for the Municipal Railway. The agency would also define the plans, program and policies to achieve those goals, objectives and performance standards, all of which must effectuate the City's Transit First Policy. Furthermore, no

later than February 1 of each year, the agency would file a report with the Board on how the Municipal Railway met the previous year's Plan, if any. A recommended set of ten goals developed by the Service Performance Committee is included in Appendix C to this report.

- (10) The Agency would establish as a performance measure an annual "Base Level of Service" (annual scheduled revenue vehicle service hours) that would be a minimum level of transit service required for the health, safety and economic well-being of the City and County of San Francisco. This adopted Base Level of Service would also be used as a bench mark in developing the Authority's annual operating budget (see No. 15 below). The Base Level of Service is estimated to be 4.5 million revenue vehicle service hours. Currently, Muni estimates that approximately 4.1 million service hours are being provided. The Base Level of Service, unless increased by the Board of Directors, should be provided by Fiscal Year 2001.

- PERSONNEL SYSTEM

- (11) The Board of Directors would appoint the General Manager, who would serve as the chief executive officer of the Agency, and would deal with the administrative matters solely through the General Manager or his or her designees. The General Manager would then appoint all key management personnel of the Authority, with the exception of an Internal Auditor, General Counsel, and Board of Directors' Secretary, who would be hired by the Board and serve at the pleasure of the Board. In situations where any claim against Muni equals or exceeds \$1,000,000 in total, the General Counsel will be required to obtain the concurrence of the City Attorney on any terms of settlement and on the conduct of litigation.
- (12) The Agency would act as the personnel office for its employees, including employees of the Municipal Railway, and should determine appointments on the basis of a civil service system that it establishes and administers and that is based on merit and fitness as shown by appropriate tests. All powers and duties vested currently with the Civil Service Commission with respect to the merit system, patronage, favoritism and discrimination will remain, with the exception that the Agency would have the right to restructure and

set specifications for position classifications within the Municipal Railway. All powers and duties of the Department of Human Resources and the Human Resources Director as to selection and appointment of employees in the Agency would vest with the Agency.

- (13) The Agency would exempt from the civil service system such management, supervisory and policy level employees as it deems appropriate, and the persons serving in those positions shall serve at the pleasure of the General Manager. Nothing would preclude such employees from collectively bargaining for wages, hours, working conditions, and ~~as well as~~ benefits except for retirement benefits. The Civil Service Commission would annually review both exempt and non-exempt classifications of the Agency and should make such recommendations as it deems appropriate to the Agency.
- (14) The wages, hours, working conditions and benefits of the employees of the Agency would be fixed by the Agency after meeting and conferring as required by the laws of the State of California. The Agency may, in its sole discretion, determine that it is in its best interest to utilize a citywide contract when the Agency employs a relatively small number of a bargaining unit's City and County workforce.

- FUNDING

- (15) There would be established a Municipal Transportation Fund to provide a predictable, stable, and adequate level of funding for the Agency. The fund would be maintained separate and apart from all other City and County funds. Monies therein would be appropriated, expended or used by the Agency solely and exclusively for the operation, including without limitation, capital improvements, management, supervision, maintenance, extension, and day-to-day operation of the Agency and the Municipal Railway.
- (16) Beginning with the fiscal year following enactment of the requisite Charter revisions establishing the Agency and in each fiscal year thereafter, there would be set aside into the Municipal Transportation Fund, the following:
 - a) An amount or equivalent thereof (the "Base Amount") to be allocated from the Business Tax as specified under Part III, Article 12-A (payroll expense tax) and

Article 12-B (business tax) of the San Francisco Municipal Code. This Base Amount would be no less than 35% of the Business Tax, as defined above, for the fiscal year immediately preceding enactment, adjusted as provided in No. 15 below;

- b) The entire gross revenues of the Municipal Railway, including but not limited to, parking revenues as defined in Section 3.707 of the Charter;
 - c) All other funds received by the City and County from any source, including without limitation, state and federal sources, for the support of the Municipal Railway.
 - d) Amounts from the General Fund equal to any diminution of the off-street parking fund due to allocations or pledges of the fund for the purposes of major capital outlays as defined in Section 3.707 of the Charter.
- (17) The Base Amount would initially be calculated by the Controller. The Base Amount would be adjusted upward by 1% above the initial 35% each year for 3 years (up to a maximum of 38%) after the initial year of operation, based on calculations consistent from year to year. Any upward adjustment beyond 35% would be contingent upon charging fares sufficient to maintain a farebox recovery ratio of at least 36%. The farebox recovery ratio is defined as total annual passenger fares plus advertising revenues divided by the operating costs of the Municipal Railway.

• BUDGET

- (18) Each year, the Agency, in conformity with the regular budget cycle of the City and County, would prepare and adopt an annual operating budget for the Municipal Railway that is adequate in all of its aspects (platform force, transportation supervision, maintenance, maintenance supervision, power, consumables and management, and all other pertinent categories of expenditure) to provide the Base Level of Service (see No. 8 above). In adopting such budget, the Agency would specifically certify the adequacy of the budget to provide at least that overall level of service, although nothing should prevent the Agency from increasing the level of service, or adjusting the deployment of

those service hours among routes or modes as passenger demand or other managerial issues or practices could require.

- (19) The certification of budget adequacy would be subject to audit by an independent certified public accounting or management consulting firm knowledgeable in transit operations and competent to perform such audit. Such independent audit would be paid for from the operating funds of the Agency.
- (20) If in any one given year Agency revenues were projected to be insufficient to operate the Base Level of Service, the Agency could declare existence of a budget emergency for that year, and may adopt a smaller budget. In such case, however, the Agency would, prior to adopting the annual operating budget, enact service reductions to such aggregate level as may be completely and reliably operated, as noted above, by the Municipal Railway under such a reduced budget. Such service reductions would be required unless the Board of Supervisors makes available to the Agency additional funds in an amount sufficient to make the reduction in service unnecessary.
- (21) As with an annual operating budget which fully funds the Base Level of Service, the Agency could, in adopting the Municipal Railway's operating budget, specifically adopt a certification that the reduced operating budget is sufficient in every way to enable to Municipal Railway to fully operate the reduced aggregate level of scheduled service. Such certification shall be subject to the same public auditing provisions noted in No. 17 above.

APPENDIX A

*Members of the New Muni Task Force

*(Participants as individuals and do not necessarily represent their organizations, which are listed for identification purposes only.)

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APPENDIX B

NEW MUNI TASK FORCE

SUMMARY OF PRESENTATIONS

BY

THE TRANSIT EXPERTS PANEL

TO

THE NEW MUNI TASK FORCE

**December 8, 1998
San Francisco, California**



NEW MUNI TASK FORCE

TO: Mayor Willie Brown

January 15, 1999

We are pleased to submit a summary of the individual reports presented by "The Transit Experts" to the New Muni Task Force on Tuesday, December 8, 1998 at our meeting at the Hyatt Regency here in San Francisco.

The panel members were instructed, from their point of view and particular experience, to describe what works and what doesn't work when attempting to run a large urban transit program.

The summary reports are quite clear and to the point. While each member represented a different agency or background, based on their professional experience, they all reached very similar conclusions, regarding what kind of institutional and organizational structure is needed to run an efficient and effective transit program.

In a follow-up meeting the panel members and the executive committee of the task force, jointly agreed on "Key Principles of Governance" as guidelines for any restructuring of Muni. These principles were used as our guidelines for determining the recommendations in the final report.

We trust that our final report, along with these summary comments will be helpful in your deliberations. We stand ready to assist you in implementing a plan of action to achieve a New Muni.

JOHN E. HIRTEN

CHAIR



NEW MUNI TASK FORCE

MEETING WITH TRANSIT EXPERTS PANEL

Tuesday December 8, 1998

9 a.m. to 3 pm., Lower Ballroom B
Hyatt Regency, 2 Embarcadero
San Francisco, CA, 94111

AGENDA

1. Welcome and Roll Call
2. Purpose of the Meeting
3. Presentations
 - Patricia McLaughlin
Vice President, MIG
Chair, Public Transportation Section
Transportation Research Board
 - Louis J. Gambaccini
Director, National Transit Institute
Rutgers University, New Jersey
 - Alan Kiepper
Senior Vice President
Parsons. Brinckerhoff. Quade and Douglas
 - Roger Morton
Senior Vice President & Chief Operating Officer
Oahu Transit Service – City and County of Honolulu
 - Thomas F. Larwin
General Manager,
San Diego Metropolitan Transit Development Board
 - Paul A. Toliver
Director
King County Department of Transportation, Seattle. Wash.
4. Questions and Answers with discussion among panel members
5. Conclusion and Next Steps

December 16, 1998

To: John Hirtten
Chair
New Muni Task Force

From: Patricia V. McLaughlin
Chair, Public Transit Section, Transportation Research Board
Director, Transportation and Management Services, MIG, Inc.

Subject: Observations on San Francisco Municipal Railway (Muni) Organizational and Operational Issues

Thank you for the opportunity to participate in the Expert Panel for the New Muni Task Force. I was impressed by the dedication of the individual Task Force members and the willingness to tackle the tough issues facing Muni.

You asked for our observations on ways that Muni could improve its ability to perform efficiently and effectively in its mission to deliver comprehensive transit service to San Francisco's varied, active transit communities, including residents, workers and visitors. You also asked for our thoughts on how some of the principles we had discussed – accountability, stability, customer focus, communications – can be addressed in designing a new institutional structure to meet the goals and objectives in Muni's mission.

I would say that four key areas need to be addressed for Muni to succeed. These are:

- Accountability and Decisionmaking
- Business Planning
- Customer Focus
- Employees and Management

My thoughts on these issue areas are as follows:

Accountability and Decisionmaking

This is probably the key issue for Muni, from my perspective. Currently Muni is a City Department. While it reports to a Public Transportation Commission (PTC) on most items, the issues most tied to accountability – budget, fares and service – also go to the Board of Supervisors, which can tend to "second guess" the PTC, especially when items are controversial. Since there is little direct communication between these bodies, it appears that decisions made by the PTC on fares and service can be directly overturned by the Board of Supervisors, which can lead to lack of accountability by either body for Muni's "bottom line". Similarly, labor negotiations are handled directly by the Mayor's office, not the Muni General Manager. This can lead to confusion on the part of both management and labor and can form a barrier to labor-management initiatives, since the direct relationship between management and labor is necessary for this type of direct, honest dialogue to take place.

While the City appears to have a positive, proactive attitude toward transit, it is natural for other municipal needs to take precedence when there are competing demands for the general fund. From a transit perspective, customer base, budget, fares and service are directly linked and interdependent. In order to turn Muni around, there needs to be an independent Board of Directors, with direct responsibility for budget, fares and service. Preferably, there should also be a dedicated funding source or sources.

In terms of decisionmaking, an independent Board should set policy and the General Manager should be given the authority to carry it out.

Business Planning

Because transit funding tends to be dependent on state and federal grants it is, in general, somewhat unpredictable. However, in Muni's case it is made worse by the fact that Muni is a Department of the City of San Francisco and has no dedicated funding source and no predictable source of local funding. This leads to the inability to do standard business planning, where Muni would determine customer needs, set clear objectives and design strategies to meet and measure progress toward those objectives. Muni should define its customer base, develop goals and objectives to meet the needs of those customers and develop performance measures to gauge progress toward meeting those objectives.

Customer Focus

Since Muni has generally high ridership, it might be assumed that "customer focus" is a given. However, customer service has been lacking. There is no marketing function, per se, and little evident market research. In addition, employees efforts to serve the customer are hampered by continuing problems of equipment and infrastructure. Employees, being the most visible "face" of Muni, can become targets of passengers' ire. This can lead to lack of a sense of purpose and burnout, which can exacerbate problems of absenteeism. There should be a renewed focus on defining customer needs and involving the employees directly in devising strategies to make sure those needs are met.

Employees and Management

On the surface, the large number of employee unions is the most evident feature of Muni. While this makes labor-management relationships more complex, a larger issue is that of accountability and communications between the General Manager and the represented employees. As I mentioned earlier, the fact that the unions negotiate directly with the Mayor means that the union leadership does not have to develop a direct relationship with Muni's General Manager - and vice versa. Absenteeism and missed work runs are also a symptom of a larger issue that appears to be a combination of lack of ownership, poor communications and negative incentive systems.

In addition, any productive transit organization needs to have stable leadership with the authority and accountability to get things done. The reporting relationships among the Mayor, Supervisors, TPC and General Manager get in the way of this at Muni.

Conclusions

Muni serves a great city and has several significant challenges facing it. The following process could work in helping Muni sort through its problems and reach consensus on solutions:

Goals and Principles: Determine customer needs, purpose and direction for the organization

Stable Organizational Structure: Create a board structure that is independent and separates policy from operations. Empower the Chief Executive Officer (CEO) to make operational decisions within the broad policy directions set by the Board. Equip the CEO with decision-making over hiring and compensation of subordinates.

Transition Plan: In addition to the goals and objectives of the organization, develop people systems that develop a common corporate culture and values centered on the customer. Consider employee and communications needs along with technical needs.

Accountability and Performance: Establish measurable objectives, track performance against that objective and measure progress. Make sure these goals, objectives and performance measures are understood and communicated to all levels of the organization and outside the organization.

Systems: Ensure that technical, administrative, reward and people systems support the new organizational structure and mission. Establish direct communications between management and labor. Change charters and requirements so that employees are hired and rewarded on the basis of their ability to contribute to the new, customer-oriented system.

Outreach and Communications: Communicate transition at all levels of the organization. Develop ways to communicate issues and Muni's progress on addressing these issues to the press, elected officials, the press and employees.

I enjoyed participating in the New Muni Task Force Expert Panel. There is great talent and energy among the Muni employees and Task Force members that we met. It appears that the organizational structure is one of the key barriers to Muni's success. I believe that establishing the Task force and focusing on Muni while involving key staff and employees in solutions to the problems, is a positive step forward. I wish you, the Task Force and Muni employees success in your efforts.

Sincerely,

Patricia V. McLaughlin
Chair, Transportation Research Board Public Transit Section
Director, Transportation and Management Services, Moore Iacofano Goltsman, Inc. (MIG)



National Transit Institute

December 14, 1998

To: John Hirten

Fr: Louis J. Gambaccini

Re: Summary: Personal Conclusions of my Muni Panel Participation 12/7-9/98

Thank you for the opportunity to participate in the six-person panel recently convened concerning Muni and its current issues. I was very positively impressed with the quality of the visiting panelists and with the commitment, care and candor of the members of the local task force and the members of the Muni staff.

You asked each of the panelists to highlight for the task force our individual reactions to what we heard as problems and areas for intervention.

My views are summarized as follows:

About Muni: Muni is a vital, indeed indispensable, asset to San Francisco. It has grievous systemic problems despite what I perceive to be generally dedicated competent professional staff and good extensive base infrastructure.

Given the significant and serious problems that exist (overage equipment, service unreliability, strained labor/management relations and significant problems of lost credibility with the public). I believe this is the time of unique opportunity to try to build broad support for systemic (i.e. structural) improvements to the system.

From the description of what works best elsewhere as reflected in the reports of all the panelists, from what we learned from staff of Muni and the task force and from my own personal experience over 35 years in the transit industry in 3 major transit agencies and finally from my experience as active participant in national professional and trade organizations, I conclude as follows:

1. Relative Independence: It is not an accident that most successful transit agencies around the world are organized as quasi-governmental entities outside of the conventional political framework. They are typically governed by Boards of Directors appointed by the chief executives (state or local) to provide policy direction to a trained, competent professional staff. It is in the nature of the transit activity that it is intrinsically enterprise characterized often by intense stresses to deliver complex services on rigid time schedules affecting hundreds of thousands of riders daily; requiring in short a

combination of military and business type decision environment. Teamwork, highly trained staff and assertive decisive action in decision making are essential to such operations. The nature of the business requires maximum independence in the operation and a single minded focus in the delivery of customer sensitive, cost effective service on an on-time basis to support the city's economic and quality of life. Transit is truly the circulatory system of any great city. I believe it vital that Muni have a Board of Directors empowered to give policy direction to all aspects of the operation with a minimum of (preferably no) intervention by other agencies or entities in the day to day operations or support systems. Board members should be comprised of very carefully selected members who serve for overlapping terms (assuring stability/continuity), care deeply about the importance of the mission, be committed to investing the time and effort required, regard such service on the Board as a great privilege and trust, serve without compensation, bring significant diverse experience to the mix, take their fiduciary responsibility very seriously, and regard transit as their exclusive focus as members, undiluted by competing personal and political agendas.

2. Accountability: It is axiomatic in business and government (or in any human organization) that authority and responsibility must be in balance each with the other to optimize performance. It is unfair if not impossible to hold an executive responsible (accountable) if he/she is not given the tools or the authority to perform. Currently diverse entities and boards have a piece of the Muni management and decision-making responsibility and make effective performance by the General Manager well nigh impossible.

I believe strongly the General Manager should have control (he/she may opt to sub-contract certain support staff services but must have the right & obligation to cancel such contracts if performance is lacking) over all the vital functions of an enterprise (legal, financial, personnel, police, etc.), the right to hire and fire managers and administrative & clerical staff should be unequivocal. Ideally, all non-union personnel should be outside of civil service and serve at will.

3. Stability: It is essential that to the greatest extent relative stability be achieved & maintained:

- Ideally:
1. Funding tied to 3-5 year Strategic Plans
 2. General Managers of proven skill and professionalism should be provided incentives to stay in office for 5-10 years.
 3. Board members with 4-6 year overlapping terms (removable for cause only) are carefully selected.
 4. Investment in training and career development of staff to assure top performing people throughout the organization.

I believe that if the structure is changed to significantly achieve these three principal objectives inevitably the dividends will multiply and radiate throughout the organization

in the form of myriad measures of management and performance namely, for example, improving:

- Morale & loyalty of employees
- Operating measures compared with prior periods and with peer groups.
- Credibility & support of the public.
- Political and financial support.

Thank you again for the chance to have participated in this worthwhile project. I wish you and your associates every success. Please let me know if I may be of future assistance.



Memorandum

To: John Hirten

Chairman - Muni Task Force

From: Alan F. Kiepper

A handwritten signature in dark ink, appearing to read 'Alan', written over the printed name.

Date: January 5, 1999

Subject: Key Ingredients In A High Performing Organization

There are common traits that are seen in most high performing public transit organizations. These are:

1. RELATIVE INDEPENDENCE

Relative independence means having under the control of the transit agency and the CEO, the processes and services necessary to get the job done. In the case of a transit agency this means control over personnel actions, procurement and contracting authority, budget control and financial reporting, and prompt access to legal services. The budget would, of course, require approval of the governing body. An example of what I'm talking about: the Metropolitan Atlanta Rapid Transit Authority (MARTA) preceded the Metro Dade County Transit project by about two years. Metro Dade drew heavily on the MARTA experience, yet it fell behind in construction, cost control, and schedule. An examination of the two organizations reveal that, unlike MARTA, Metro Dade was required to rely on the Dade County Government for procurement, legal services, financial reporting, and other key responsibilities. Provision of these services was subject to the regular bureaucratic delays. Metro Dade could not get the prompt action required, particularly procurement, financial and legal matters, to keep the project on schedule.

The lesson here is that if you expect a transit agency to be high performing, give it relative independence and control over the support services that it needs, then you can truly hold it accountable.

2. ACCOUNTABILITY

It is essential that the chief executive, by whatever title known, have the tools to do the job. The most important tool of all is the freedom to chose



subordinates. The more restrictions you place on the CEO's choice of subordinates, particularly the key members of his or her management team, the less accountable he or she becomes. There should be no restrictions on hiring or firing except those required by law (non-discrimination because of race, religion, or sex). Accountability and freedom to chose subordinates go hand and hand. You can not hold someone accountable if they don't have the free choice of their subordinates. This means that such things as layering a civil service system over union contracts presents a insurmountable task for the exercise of true discretion on appointment of key personnel and invariably delays and/or frustrates the process.

3. COMPETENCE

It almost goes without saying, but not quite, that the goal of the selection process should be to select the most competent people. A high performing organization needs to hire the most competent people it can lay its hands on. Using a standard which requires consideration of everyone who has passed an examination as being qualified for a position doesn't ensure that the best qualified can be appointed.

Competence needs to be judged in terms of objective and subjective criteria. Objective criteria can reasonably be measured by education and an evaluation of related experience. Subjective criteria are more difficult to pin down. A lot of it deals with the chemistry that exists between individuals. The right chemistry can lead to an effective working relationship based on common values and mental processes. It is largely intangible and can only be evaluated by the interaction of personalities, but it's a essential ingredient in choosing especially top staff personnel. When the right chemistry exists there is a comfort that develops in the delegation of authority which achieves a more efficient organization.

4. TEAM WORK

Team work is the ability of the CEO and key subordinates to work together in good faith, finding ways to support each other, not focusing on who gets the credit but whether the job gets done and the goals are achieved. The ability to create an effective working team is the essence of management. "Smooth working and effective" doesn't mean the absence of varying views. I believe that the freedom and ability to tell the Emperor that he is naked is essential to the decision making process. Staff should feel



obliged to disagree, argue its point, challenge, fight like tigers. But when the decision on a course of action is finally made the staff is committed to carry it out. The objective is clear. Take the hill!

5. STABILITY

Stability of management, consultants and other major sectors bearing on the organization is essential to achieving high performance. A rapid turnover of chief executives or key staff members has a very unsettling effect on an organization and keeps it in a state of constant turmoil. It requires about 18 months for a new executive to get to know an organization and to make his influence felt.

MARTA in Atlanta in 32 years of existence has had four general managers and one general engineering consultant. METRO in Houston now in its 20th year, has likewise had four general managers. MTA/NYCT in New York has had four presidents in 17 years, a little less stable, but certainly above the average. Stability in an organization allows people to feel relatively secure and to perform their best. It also allows them to render critical judgements without the fear of removal. Too long a tenure can be harmful. An organization "can go to seed" if it doesn't have a flow of new ideas in an atmosphere of challenge. In my opinion the desirable tenure of a chief executive should be between 5-10 years. Less than five, particularly as an average, means that the organization has to frequently adjust to a new presence in the executive office. Longer than ten runs the risk of obsolescence of ideas.

857 Kii Street
Honolulu, HI 96825
December 30, 1998

Mr. John E. Hirten, Chair
New MUNI Task Force
San Francisco Municipal Railway
949 Presidio Avenue
San Francisco, CA 94115

Dear Mr. Hirten:

You asked that I comment on my observations regarding MUNI's problems as related to its governance structure and institutional arrangements compared to Honolulu. I do so with reluctance since I have had only a snapshot of the system and have not had the opportunity to do anything but scratch the surface. It is obvious that MUNI's equipment is older than most fleets in comparable cities, that some maintenance facilities appear woefully inadequate, and the MUNI's very heavy ridership and San Francisco's terrain place a greater burden on transit equipment than is typical. These factors make it more difficult to operate effective transit services but in no way excuse poor service performance. Such factors may well increase the cost of maintenance, as more intensive programs may be required.

Secondly, I have no doubt that service delivery to the public will improve as a result of the obvious priority that is now being given to MUNI by the City and County of San Francisco. As new equipment is received and new support personnel come on board, riders will perceive a demonstrative improvement in the short term. I understand that the problem of excessive service cancellation, for example, has largely been resolved. There is a real danger that the perceived improvements may lead management to declare victory and not address all the underlying causes that have led MUNI to its present state. There is also a danger that current planned improvements will be implemented at greater cost than would be required if some of the underlying problems were addressed. For example, service cancellations may be reduced by simply hiring more personnel and not through improvements in employee attendance. San Francisco needs a high performance transit operation that places priority on both excellent service delivery and cost-effectiveness.

Around the country most big-city transit systems are operated by autonomous agencies that have a specific transit focus and stable revenue sources. Table 1, attached, provides a survey of transit system governance for the top 40 transit organizations around the country. Eighty percent of large transit systems are organized as independent special districts with a transit governing board. The board composition of special districts is generally made up of publicly-appointed private individuals or local elected officials serving in an ex-officio role. Only 8 systems out of the largest 40 transit

Mr. John E. Hirten
December 30, 1998
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systems (including San Francisco and Honolulu) are operated by local (municipal or county) government. Three of the eight systems operated by local government have separated operations from policy making through contracting with private nonprofit or private for-profit operating entities. Of the remaining five transit systems operated by local government, Seattle is a special case. It has only recently been made a part of county government (having developed as Seattle METRO – a special district) and has dedicated revenue sources which are sufficient to fund an expanding system without local appropriation of any general fund revenue. King County METRO retains a good degree of autonomy within County government. The remaining four systems that are directly operated by local government include San Francisco, Miami-Dade County, Detroit, and Broward County Florida. Direct municipal or county operation of public transit systems is not common in large urbanized areas.

Most independent transit districts have been formed so that transit could be operated as a regional service where routes did not end at municipal or county boundaries. However, there are other reasons that the transit district has become the predominant model for operating transit in large areas. Transit is a dynamic, complicated, ever changing business. It is capital and labor intensive and services are provided, in large measure, as a result of consumer demand and not due to purely demographic measures. It requires a large investment in a fixed plant and long-term planning and strategies. Operations are not easily changed in the short run. Operationally, it is imperative that transit be run as an enterprise first and as a government agency second. Some of the largest transit systems in the country serve only one political jurisdiction yet are formed as independent agencies. There are good reasons that transit has evolved in this manner.

Municipalities or counties tend to have broad responsibilities that include law enforcement, water quality, economic development, fire protection, parks, welfare, etc. City or county councils cannot have the same transit focus that is typical of truly independent districts. Moreover, city councils may perceive transit as a "pork barrel" service. District representatives may demand service on the basis of equity among districts rather than need or demand. Moreover, municipalities and counties tend to have a number of specialized departments that provide important services to municipal transit operators such as personnel, finance, procurement, risk management, and legal defense. A high performance transit organization needs to be able to control these functions if it hopes to develop excellence in service delivery. If these services are under the direction of another department head, then only the mayor or county executive will truly be able to set priorities. General government departments will have their own unique goals and objectives that may not serve transit well. They also provide a built-in excuse for a poor performing transit system.

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The Honolulu situation is very analogous to the San Francisco situation. The City and County of Honolulu is an amalgamated city and county local government and all transit service is operated within a single political jurisdiction by the county government. Transit use is heavy and some major routes traverse mountain ranges on a daily basis. Similar to San Francisco, the Honolulu City Council appropriates transit's annual budget largely from general revenue on a year-to-year basis. Moreover, The Bus is almost totally dependent upon discretionary budget appropriations for public funding. In fact, Honolulu's reliance upon general fund revenue for transit is higher than any other major urban areas. As in San Francisco, the City Council approves the transit fare structure. Currently, Honolulu's fare structure is significantly lower than the MUNI that is itself low by the standards of comparable cities.

What makes Honolulu different than San Francisco is that policy making has been separated from operations and service delivery. The general manager of the private nonprofit operating entity is responsible for all facets of service delivery including scheduling and marketing, human resources, labor relations, most procurement of materials and supplies, and risk management. Transit workers are not provided civil service protection. If things go wrong, it's clear who is responsible.

The Honolulu structure delegates transit policy including service planning, neighborhood and political relations, intergovernmental relations, service delivery evaluation, major equipment purchasing, and audits to the City's Department of Transportation Services. A dedicated public transit staff, under the Director of the Department of Transportation Services, is responsible for transit planning and acquisition of appropriate facilities and equipment. This basic division of responsibilities has been effective for Honolulu.

Over the years, Honolulu has developed several mechanisms to evaluate the quality and efficiency of services provided by the private nonprofit firm. The City's Director of Transportation Services and the private nonprofit entity board of directors, both evaluate management on the operation of the system, including service delivery (on-time performance, maintenance, reliability, etc.), labor issues (including collective bargaining, driver attendance, overtime, and driver complaints), budgetary performance and cost-effectiveness (inventory, staffing levels, etc.). There are annual goals and objectives developed that provide a statistical yardstick for evaluation. Hence, two separate bodies regularly evaluate management on very focused service delivery matters.

The private board of directors has an admittedly, limited role in the overall governance of the transit system. Given its limited role and similar to the situation in San Diego, the nonprofit board generally meets no more often than quarterly. The

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board's main role is to evaluate, hire, and fire the CEO and to approve periodic goals and expectations. On this point, the board ensures that goals adopted require a reasonable stretch by management to obtain. Goal development is serious and is openly debated at the Board table. As most members of the private board are executives from local businesses, they have developed a keen awareness and concern over matters of efficiency and costs.

In Honolulu, we have had relative stability of top management. The City's practice of establishing a fairly long contract term (five years for the past two contracts) provides stability in management yet the City retains the right to make changes if things go wrong. Over the past twenty years, TheBus has had only three general managers. Other cities with the "Honolulu" model of organization (such as Milwaukee or Phoenix) also have considerable stability of top management within the transit operations entity. With a fairly long-term contract, management can focus on long-term strategies such as labor and employee relations, staff development, fleet and inventory standardization, and transit information systems.

The thorny problem of private, nonprofit entity accountability has been dealt with in the contractual and legal relationship between the City and the nonprofit contractor. The City must approve (but does not appoint) successor board members and has the right to remove any or all board members if the Director of the Department of Transportation Services determines that such removal is "in the best interests of the City." One might speculate that such removal might be necessary for only the most compelling reasons such as theft or malfeasance of office. The City also has the complete and unfettered right to perform post transaction audits on any matter.

If the City feels that incumbent management has become stale and that new individuals and new ideas would be desirable, they can accomplish this through a competitive bidding process at the end of a five-year contract term. As TheBus is deemed to be an instrumentality of the City, the Federal Transit Administration has ruled that competitive bidding is allowed but is not required. For all practical purposes, competitive bidding could lead to replacement of the top two executive personnel or the top seven senior management personnel depending on the City's preference. For a large entity, it is not practical to replace all operating employees. New management could, of course, replace any and all personnel in the ensuing months and years. The City also has the ability to contract out specific routes or services to the private sector or to effectuate the formation of other nonprofits. This is very similar to the situation in San Diego under the MTDB. Hence, the nonprofit entity has an incentive to perform or to risk replacement. In the absence of actual profits, there is no incentive to cut the quality of service in order to maximize private profits. On the other hand, the absence of the profit motive increases the need for the private board and the City regulator to evaluate

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cost-effectiveness in operations without dictating budgetary constraints that lead to poor service quality.

As in San Francisco, direct Honolulu City employees employed by the Department of Transportation Services are covered by a civil-service system. Transit personnel employed by the private nonprofit entity are not provided this protection. However, unionized employees are provided substantial protection through union contracts and through the application of various state and federal employment laws. This includes merit selection and promotion of employees, EEO and employee discrimination issues, and a system of discipline and termination for just cause. Labor relations at transit agencies are always major issues and the general manager needs to have control of the process. Often, in municipal government, personnel actions are outside of the control of the agency head.

The operating contract between the City and the nonprofit provide that the nonprofit shall purchase materials, supplies, and services on behalf of the City. Further, the agreement provides that the nonprofit entity shall comply with all federal, state and city procurement laws and regulations. The City is directly responsible for "all major equipment purchases including buses and other transit equipment."

In Honolulu, the operating contract with the City provides that the nonprofit have two named executives (namely, the general manager and senior vice president). Executive management serves at the pleasure of the private board and, as named individuals, cannot be changed without the consent of the City. Other senior managers (there are currently five department heads) are employed "at will" and can be removed by executive management. Approximately another 100 employees out of about 1,600 are considered management and are exempt from unionization. The General Manager reserves the right to approve all appointments of nonunion staff although it is his policy to allow department heads the latitude to hire their own staff. It is also the policy of the Company that subordinate management staff can be terminated for cause following a review by other senior staff. While it is rare for the nonprofit to fire nonunion managers, it does and can occur. This arrangement lends itself to a team commitment of top managers.

As a private, nonprofit operator, we jealously guard our independence particularly when it comes to labor relations. Labor knows that management's tenure is long-term. Occasionally, there have been attempts by labor to run around management by enlisting the assistance of elected officials or city department heads on specific issues or interests. However, these isolated attempts have generally been rebuffed in a cordial and effective manner. Likewise, local officials occasionally refer individuals to TheBus with a recommendation for employment. These recommendations are accepted and

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individuals are generally considered for open positions. However, as a private employer, we always retain the right to say no and we require that all new hires be fully qualified for any open position. Our firm policy on employment limits the number of such referrals to a very small number (usually for entry level driving jobs) and we have gained some respect for our principles. In a few cases, we have angered some local officials with authority. However by and large, the separation of policy and operations serves the interests of City officials, transit management, and organized labor.

While we are a private, nonprofit organization, our own actions are often taken with sensitivity and consideration of the politics and circumstances of the City. Such sensitivity is both good business and common sense. Our collective bargaining contracts, for example, are often different than the formula used for local government workers but are never out of line with the trend of local settlements. For the past twenty years, transit settlements have generally been more favorable for management than other public employee contract settlements. Often, we are able to bargain for items that would be prohibited for public employees under state law. Such items as health care, vacations, workers' compensation, or sick leave are legitimate items of negotiations. In recent years we have won concessions in these areas. While there has not been an employee work stoppage in Honolulu in almost thirty years, labor knows that management is independent and that there is a point beyond which management will simply say no.

The "Honolulu" model is not the usual model for organizing transit services. It insulates day-to-day operations from municipal government but not from annual budgetary considerations or from the whims of local government. Because of the separation of duties, it may complicate some aspects of transit operations such as operational planning, federal grant coordination, and budget planning. The lack of a stable funding source makes the operation subject to substantial year-to-year variations in funding. Independent transit agencies are also subject to such fluctuations in revenue. The difference is that the independent agencies usually foresee the funding issue and takes internal steps to account for variations in funds. Where the operation is separated from policy makers (as in Honolulu) there may be a tendency toward reactionary planning. Moreover, the system may be subject to city-wide policies and dictates that may not be appropriate to the transit system as an enterprise.

There are as many models for operating and governing public transit as there are systems. However, there are some common themes. In a successful system, the General Manager has clear authority and responsibility and is held accountable for system performance. Successful operations usually have relative independence from general government and are usually governed by an independent board. This leads to management and board stability and the development of a team approach. There is a

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need for a corporate culture that nurtures staff competence and open communications at all levels. The Honolulu model relies upon strong transit policy and planning guidance from City transit officials. It is City officials who control the big levers of budgets, service development, and fleet and infrastructure improvement. A well thought-out strategic plan supported by a multi-year implementation plan is critical to any successful operation.

At the end of the day, it's good people that make a good organization. A well-governed transit system may have poor management while a poorly governed system may have superior management. A well-respected general manager that has the confidence of transit employees, the board, elected officials and the community-at-large will be able to accomplish more than an individual that does not garner the same respect. It is not a matter of superstar performance. An effective general manager will be able to lead and inspire other employees. Employee moral and teamwork are absolutely imperative for a high performance transit system. In the long run, a well-governed system is more likely to attract and retain good management. Technical and managerial improvements will flow from good governance.

I hope that this letter provides a good description of how Honolulu organizes its transit system. Obviously, what works here will not work everywhere. Good luck in your endeavor to find a structure that will provide the residents and workers in San Francisco with the good quality transit services they deserve.

Sincerely,

J. ROGER MORTON

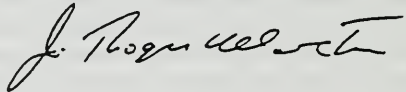
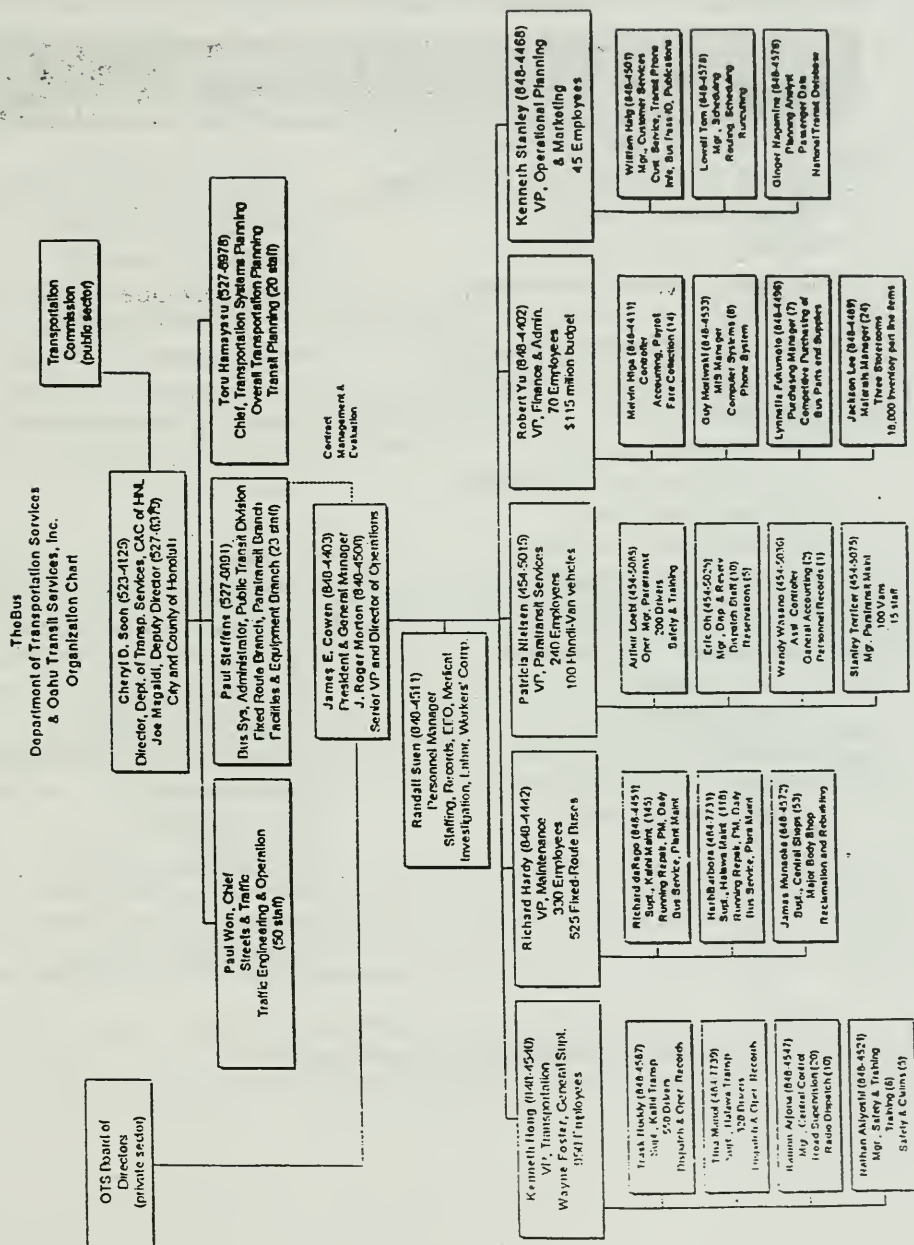
A handwritten signature in dark ink, appearing to read "J. Roger Morton", written in a cursive style.

FIGURE 1



Honolulu's TheBus Delineated Contract Responsibilities ⁶

City and County of Honolulu Dept of Transportation Services	Oahu Transit Service, Inc.
• Legal Owner of Property • Establish Transit Policy • Develop Service Improvement Plans • Overall Transportation Planning • Transit Development Planning • Establish Fares • Plan Route Locations • Establish Standards of Service • Contract Evaluation • Annual Performance Audit • Contract for Privatized Service • Provide Annual Budget • Plan Capital Improvements • Grants Processing • Grants Compliance • Purchase Major Equipment • Intergovernmental Relations • Neighborhood Relations	• Operational Planning • Schedule Preparation • Day-to-Day Operations • Paratransit Operations • Maintenance of Vehicles • Maintenance of Facilities • Marketing and Public Relations • Customer Service • Finance and Accounting • Fare Collection • Management Information Sys • Recommend Annual Budget • Federal Grant Compliance • Training and Recruitment • Labor Relations/Arbitration's • Collective Bargaining • Safety and Risk Management • Claims Adjusting • Legal Defense • Accounting & Payroll • Purchase of Supplies • Materials Management • Preparation of Reports

⁶ Source: Analysis of City Charter, relevant ordinances and current operations and Management contract

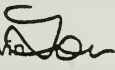
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FAX (619) 234-3407

MEMORANDUM

DATE: December 22, 1998

ADM 121 (PC 100)

TO: John Hirten

FROM: Thomas F. Larwin 

SUBJECT: NEW MUNI TASK FORCE, AND SOME OBSERVATIONS

In your memo dated December 11, 1998, you requested a memo listing my observations of MUNI's problems as related to structural/institutional deficiencies. You also requested comments on the key principles that were listed in your memo.

Observations

My overriding conclusion based upon my review of the information you sent and our two days in San Francisco lead me to conclude that their primary need is institutional, and that the "new MUNI" should be a singular body responsible for all public transportation development and services within the city and county of San Francisco. All major functions related to effectively carrying out the mission of public transit for the city and county should be contained within this one entity. Such essential functions would include: legal, procurement, personnel/human resources, engineering, planning, and operations. Support in the form of marketing, governmental relations, and public information should also be within this entity. While some of these functions may be contracted out, either partially or wholly, they should be done so within the authority of the singular entity and its general manager.

With regard to the authorities of the general manager, they should be prescribed in clear fashion so that the individual knows the degree of discretion with regard to contracting, change orders, marketing actions, and other limits that could be described within policies and within the annual budget authority. The limits should be broad enough to permit the general manager the ability to have some creativity and be effective in directly influencing the day-to-day management of the operation.

The board structure can take a number of forms, but the key feature in its definition would be to focus on policy and emulate a corporate board of directors. Thus, it, too, should have its authorities spelled out and allow it to focus on policy direction.

Principles

In my opinion, a restructured transit governmental entity should be guided by these key principles:

1. **Independent Government Entity** is key—and it should *not* be “relative independence.” Start out with a clear and strong role as a principle. If you go in “watered down,” then there is the risk the independence could get even further sacrificed. This principle ties in with my overriding conclusion. My fear would be that if a fully separate transit entity isn’t formed, then many inefficiencies will remain due to the nature of being contained with a local government structure.
2. **Clear Definition of the Board’s Authorities**—in this regard, set up a board that would function as a corporate board of directors. They should function as policy makers; and provide oversight. Management should be responsible for the day-to-day operations of the entity, and then be held accountable for overall performance.
3. **Clear Definition of the General Manager’s Authorities**—the authorities, limits, and bounds, need to be clearly delineated in policies. They need to be broad enough to allow sufficient managerial control and discretion. The authorities also need to be clearly understood by both parties, the board and the general manager.
4. **Board Stability**—over time, consistent transit policies will be important to the community, to the employees, and to the customers riding the system. So, the result of stability is consistency. Consistency would also bring with it *respect*! Board members should have terms that would enhance stability. Rotation on/off should be allowed in a way that doesn’t lead to major shifts at any one time.
5. **General Manager Longevity**—this is a tough one to effect even though the principle makes sense. The hiring of a general manager is like any other partnership and works or doesn’t work based upon numerous hard to define variables. However, the important thing here is to set up a position with the high probability of success rather than failure. Hire a “pro” with industry experience, and negotiate a contract. Based upon my feelings as a manager and my experiences, longevity can be enhanced if principles 1 through 4 are achieved.
6. **Establish A *Quality* Mind Set**—in everything that is undertaken with the new entity. So, hiring of competent and skilled employees is a foundation for quality. There can be no room for political appointees; such a process “poisons” the entire organization and makes quality impossible to achieve as the entity’s “culture.” Quality also embodies communication, up and down the organization. Employees want to know why something was decided that way, and want to be heard. A quality program allows for open communications and breeds teamwork.
7. **As an Early Action Plan, Develop A Strategic Plan, or a Business Plan**—I’m not sure what presently exists in this area for MUNI, but with a new board and a new general manager, a strategic planning process would be a good way to bring these new “partners” together and to forge a common direction. The risk is that it generates controversy. However, set up according to the above principles would demonstrate a new MUNI to the community. Such a plan, in and of itself, would also help reinforce principles 4 and 5.

Basically, MUNI has a tremendous base for quality transit operation and development:

- it's a compact city where residents depend upon transit, and want to use it as a convenient way to get around town.
- it has a large transit infrastructure base around which travel patterns and habits are shaped.
- it has a travel market that covers the traditional community trips, but also a large visitor/tourist market.
- it has a dense and vibrant central area.
- it has some good programs under development.

So, there is much to build upon, and San Francisco remains a great transit city. I am sure, too, there are many good individuals working for MUNI who are just waiting to work in a new quality culture, and are hoping that this time there will be a new MUNI!

M-NWMUNITSKFC.TLARWI

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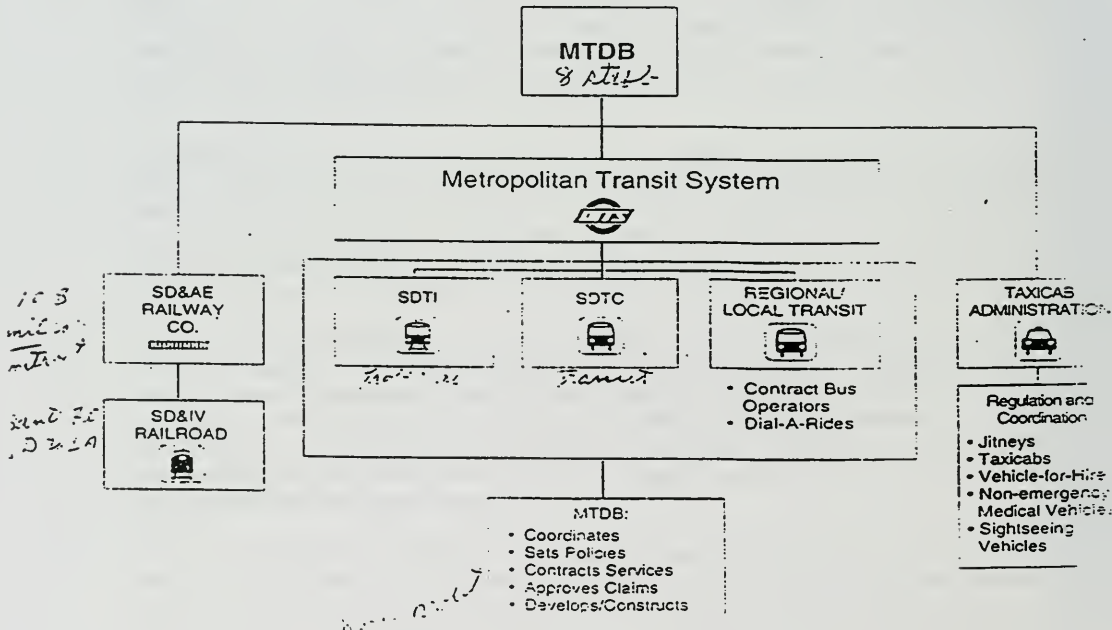
NEW MUNI TASK FORCE

BACKGROUND MATERIALS RELATED TO THE SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD

Prepared By

Thomas F. Larwin
General Manager

December 7, 1998



New Muni Task Force
Summary of Panel Presentation

Paul A. Toliver
Director, King County Department of Transportation
King County (Seattle) Washington
December 8, 1998

A Brief History

Seattle Metro was created in 1958 by State Legislation for the specific purpose of cleaning up Lake Washington, one of the most polluted lakes in the State of Washington. In 1972 the citizens of King County voted to give Metro authority to operate a county wide transit system. With that authority, the citizens voted a sales tax to pay for the capital and operating cost of running the system. The original system was made up of a number of separate transit systems, the largest being Seattle Transit, which operated in the City of Seattle.

The new county wide system became known as Seattle Metro Transit and operated until December 31, 1993 when it was merged into the King County government.

Governance and Similarities

The Seattle Metro's federated governance structure was comprised of a 44 member policy council by the time it merged with King County. The council divided itself into two committees that provided oversight for the county wide transit system and the county wide Waste Water Treatment system.

The organization structure of the former Seattle Metro organization was extremely similar to the old San Francisco Public Utility Commission

organization. Both organization had a strong CEO with the necessary authority to accomplish its mission. Both had strong operating departments. Seattle Metro had transit and waste water treatment. The San Francisco P.U.C. had Muni (transit), water and Hetch Hetchy (electric). Both also had support services under its CEO in order to insure that operating departments were successful.

Critical Differences

With all of these similarities, there were some critical differences. These differences, in the authors opinion were those which caused Seattle Metro to twice be named best large transit system in North America (1984 & 1992) and the other to have reached a point of not so quiet desperation.

⇒ The first difference is that the governing board (Metro Council) to which the CEO reported had the final say concerning all matters of the organization including goals, budget, fares, service plans and legislative issues.

⇒ The second difference is that the Metro Council did indeed delegate the authority to its executive director to operate especially the authority to hire and fire employees (there were strong unions but no career or civil service), enter into most contracts if funds were in the budget and be the final spokesperson for the organization.

⇒ The third difference was that Seattle Metro Transit had two permanent and dedicated sources of revenue. They were a sales tax and a motor vehicle excise tax (MVET).

One final point having to do with Seattle Metro's success was its culture of a strong commitment to customer service and excellent. This strong commitment came from its founder and first legal counsel, James R. Ellis. It was he who coined the slogan, "Better Than Promised".

A Change in Culture

In the late 80's and early 90's, Metro was itself going through some difficult times with its customers and its employees. It was determined that the Metro organizational culture needed to change as its environment and its customers changed (customers included riders, employees, taxpayers, policy makers and even media). Metro management's relationship with its rank and file employees was deteriorating. Given the current and anticipated demands on Metro, a better relationship between employees and the organization's leadership was necessary if Metro was to continue to be successful.

A commitment was made by the leadership to change the culture. From 1992 through 1994, over 4000 employees participated in a "cultural change process". A critical mass of employees accepted and embraced this effort and helped infuse the rest of the workforce to where even today, Seattle Metro is still viewed as one of the best transit operations in the country.

In conclusion, the factors of relative independence, authority, responsibility, accountability and funding are critical to the success of San Francisco Muni. However, just as important is insuring that this organization has a culture that is service and customer oriented and believes that doing "better than promised" is the only way to go.



King County Department of Transportation

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Director
Carln Weiss
Deputy Director

Transit Division
Rick Walsh
General Manager

Transit Operations
Chris Overland
Manager

Vehicle Maintenance
Jini Doon
Manager

Power & Facilities
Darryl Uchida
Manager

Service Development
Jini Jacobson
Manager

Sales & Customer Service
David Campbell, Mgr.

Mgmt. Information & Transit Technology
Therese Landis, Mgr.

Trains & Light Rail
Gary Hilly, Manager

Road Service Division
Harold Taniguchi
Acting Manager

Administration
Linda Dougherty
Acting Manager

Traffic Engineering
Lloyd Hall
Manager

Road Maintenance
Rod Malinin
Manager

Engineering Services

Construction Services
Jory Dahl
Manager

Project Support Services
Lydia Hoyonit, Mgr.

Design/Project Management Group

Transportation Planning Division
Peg Francis, Acting Manager

System Planning
Dill Hoffman
Manager

Capital Planning
Linda Smith
Manager

Grants
Roy Francis
Administrator

Fleet Administration Division
Windell Mitchell, Manager

Budget & Finance
Jose DeLeon
Manager

Construction Equip. Acquisition & Maint.
Mel Anderson, Mgr.

Equip. & Construction Materials Supply
Joyce Mitchell, Mgr.

Motor Pool Vehicle Acquisition & Maint.
James McDonald, Mgr.

Transportation Administration Division
Carln Weiss, Deputy Director

Community Relations & Communications
Betsy Oulbode, Supr.

Budget & Financial Management
Chris Richards, Supr.

Administrative Services

Transportation Research
Park Woodworth

APPENDIX C

REPORT OF THE SERVICE PERFORMANCE COMMITTEE

"Realistic Goals That Lead to Reliable Service"

The Service Performance Committee adopted and was guided by the following Mission Statement:

"The Committee will develop and recommend realistic and workable goals for the Municipal Railway that will lead to reliable service that meets passenger needs and fulfills the City's Transit First Policy. The Committee will recommend realistic timetables for goal achievement. The Committee will also develop a recommended process for MUNI periodically to review and revise its goals and objectives so that it meets the transit needs of the entire population of the City."

The Committee was also guided by the concept of "Realistic Goals That Lead To Reliable Service." Given MUNT's current deteriorated condition, and the vast problems affecting virtually the entire operation, the Committee recognized that a "quick fix" approach would be futile and wasteful. Instead, the Committee has adhered to the philosophy and approach that the systematic development of necessary programs, and the orderly achievement of those programs, is the appropriate way to address the serious conditions encountered. It is the Committee's view that this realistic approach is the best possible way to serve the public's need for a well-run transit operation.

The Committee developed ten major goals for MUNI, which are set forth in this Appendix. After establishing the ten goals, the Committee developed specific programs required for the achievement of each of these goals. A budget and timetable for each proposed program is also set forth in this Appendix.

The ten goals are not intended to be inclusive of all aspects of MUNT's problems and operations. Rather, the ten goals have been selected as priorities for MUNI to address over the next three to four years. The Committee believes that if its proposed programs are properly funded and instituted, the public will begin to see demonstrable improvement in the system during the year 2000, and that the system will begin to approach its full level of performance by the end of 2002.

The Report of the Task Force includes specific workable proposals for the periodic review and revision of goals and objectives by the new MUNI governing Board.

Finally, while it was not the province of this Committee, in developing the goals and programs for MUNI, the Committee concluded that MUNI as currently governed and organized is woefully inadequate to successfully institute the entire program proposed by the Committee. The MUNI organization is fatally flawed with regard to its ability to control many of the necessary functions of a transit agency. For example, MUNI does not control its own

procurement, hiring, labor relations, security or legal functions, among many others. As a result, MUNI lacks the necessary expertise and ability effectively to deal with labor relations, hiring, acquiring and maintaining equipment, protecting its own passengers and employees and managing all aspects of its operation in a timely and efficient fashion. In addition, MUNI lacks the type of governing board and governing structure necessary to bring professional focus and guidance to the needs of the organization. Without bringing MUNI's governance and organization into line with well-run modern transit agencies, we will believe that it is unlikely that any comprehensive rehabilitation of MUNI will be successful.

Committee members and participants include Chair Arthur Shartsis, Vice-Chair Amy Quirk, Supervisor Michael Yaki, Harry Stern, Ernestine Weiss, James Bryant, Caesar Churchwell, Bruce Oka, Ray Antonio, Alice Fialkin, Joe Blue, Denise Collazo, Kevin Hughes, John Moran, Richard Swanson, John Hirten, David Stumpo, Nancy Whelan and Sharon Saslafsky.

The Committee was assisted in its work by MUNI staff members David Stumpo, Nancy Whelan and Sharon Saslafsky, as well as numerous staff members at the MUNI organization who supported their efforts. The Committee believes that it is important to note the extraordinary contribution that Dave Stumpo has made to this effort. Finally, the Committee thanks Mr. Larry Williams, the retired director of BART's Labor Relations Department, for his assistance in helping the Committee develop modern concepts of joint labor-management participation.

THE NEW MUNI'S TEN GOALS

...“Realistic Goals That Lead To Reliable Service”

Goal 1: Improve Customer Satisfaction and Communications

GOAL: Prepare and publish an annual bench mark survey on key measures of Customer Satisfaction with a goal of measurable improvement each year.

MEASURE: At least ten percent of MUNI riders will have an enhanced opinion of MUNI based on the second annual survey.

Program	Cost ¹	Schedule
Publicize MUNI's Ten Goals to the public and MUNI employees, and provide quarterly progress reports on goal achievement.	\$15,000 Printing only (Becomes part of 1% Budget identified below)	Commence 9/1999
Develop customer friendly information bulletins to be distributed in an effective manner at least quarterly to the public and interested groups.	\$25,000/Qtr (Becomes part of 1% Budget identified below)	Commence 12/1999
Develop a program that uses City Channel 54 to communicate MUNI news, accomplishments and occurrences – including route change information.	\$300,000 (Becomes part of 1% Budget identified below)	Complete 12/1999
Prepare and conduct first annual benchmark survey of key measures.	\$50,000	RFP to issue 1/2000
Joint labor-management committee to develop and conduct culture training for all MUNI personnel with a major emphasis on customer service.	\$3.7 Mil One time cost	Commence 1/2000 Complete 12/2001
Develop an automated Passenger complaint and commendation tracking system that runs on the existing network.	\$1.5 Mil One time cost	Complete 3/2000
Develop an effective Marketing and Public Information plan that uses 1% of the total operating budget of the system (the “1% Budget”).	\$3.5 Mil	Commence 7/2000 Full Implementation By 7/2002
Develop and implement a periodic passenger demand assessment.	\$250,000 Every 3 years	Complete 12/2000
Implement Nextbus™ Systems, a system-wide electronic sign information network.	\$6.5 Mil One time Cost	Complete 1/2002

¹ Cost increases identified throughout this report are on an annual basis unless noted otherwise.

THE NEW MUNI'S TEN GOALS

“Realistic Goals That Lead To Reliable Service”

Goal 2: Enhance System Safety and Security

GOAL: Achieve and maintain the number of incidents per million miles equal to or better than other well run transit properties.

MEASURE: Meet standards by 2002.

Program	Cost	Schedule
Accident and incident training for all supervisory employees.	\$250,000	Commence 9/1999 Fully Operational by 12/2000
Expand the accident analysis program beyond statistical compilation to enable MUNI to address conditions and circumstances that cause accidents.	\$1.2 Mil	Commence 9/1999 Fully Operational by 12/2000
Develop an Integrated Safety and Loss Prevention Program with emphasis on reducing the causes of Workers Compensation claims.	\$3.5 Mil	Commence 9/1999 Complete 12/2000
Hire staff support for development and preparation of emergency preparedness including procedural books, training and live drills.	\$180,000	Commence 9/1999 Complete 12/2000
Conduct a study of other transit systems to evaluate and identify anti-vandalism programs for adoption at MUNI.	\$150,000	Commence 7/2000 Complete 6/2001
Employ a (non-sworn) transit security force of at least 250 personnel. Deploy a sworn police division of at least 50 officers dedicated to MUNI security. To the extent these officers are from the SFPD ² , they shall be provided at cost and directed by a joint governance agreement between MUNI and SFPD.	\$14 Mil	Commence 7/2000 Full Deployment by 6/2002
Develop a system-wide security policy to provide the optimal level of security presence, which includes a security program of new Closed Circuit Television in all facilities, stations and subways; protective driver barriers; card readers at all MUNI entrances and gates; and video cameras on all rolling stock, except Cable Cars.	\$21 Mil One time cost \$3 Mil annually	Commence 7/2000 Complete 12/2002

² A glossary of acronyms is attached at the end of this Appendix.

THE NEW MUNI'S TEN GOALS

“Realistic Goals That Lead To Reliable Service”

Goal 3: Restore Published Scheduled Service

GOAL: Restore published scheduled service where appropriate. Peak period service will be Headway Performance.

MEASURE:

By September 1999: 60% on-time service on lines 90, 91, 23, 36, 39, 52, 53

By December 1999: 92% on-time service on lines 90, 91
75% on-time service on lines 39, 52, 53
60% on-time service on lines N,M,J,K,L,F

By December 2000: 92% on-time service on lines 90, 91, 23, 36, 39, 53, N, 52
75% on-time service on lines 54, 56, 66, 67, 83, 89, M,J,K,L,F
First Headway Performance Goals to be established and met.

By June 2001: 92% on-time service on lines 54, 56, 66, 67, 83, 89, M,J,K,L,F

MUNI On-Time Performance for scheduled lines is defined as the industry standard of meeting a scheduled time of arrival at a fixed location no earlier than 1-minute and no later than 4 minutes. MUNI Headway Performance is defined as average time between arrivals.

Program	Cost	Schedule
Joint labor-management committee to meet monthly to gather feedback from operations personnel to prepare for annual general sign-ups and other divisional sign-ups.	*	Commence 12/1999
Joint labor management committee to study and implement a change in the sign-up process so that service disruptions are minimized.	*	Commence 12/1999 Complete 12/2000
Implement a personal services contract to have a complete system route review performed every 5-years.	\$200,000 Every 5 years	Implement 7/2000
Implement a personal services contract to have a complete system origin and destination study performed.	\$200,000 Every 5 years	Implement 7/2000
Implement Service Adjustments	\$1 million	12/2000
Institute a true Transit First Policy by having bus only zones and lanes and reducing illegally parked vehicles.	Cost to be determined by DPT	Commence planning process 12/2000

* Minimum \$350,000 budget for joint labor-management project.

THE NEW MUNI'S TEN GOALS

"Realistic Goals That Lead To Reliable Service"

Goal 4: 100% Operator and Maintenance Worker Availability

GOAL: Achieve 100% availability.

MEASURE: 98% availability by June 30, 1999
99% availability by December 31, 1999
100% availability by June 30, 2000

Program	Cost	Schedule
Representative labor committee to review - for the purpose of making proposals - no fault absenteeism systems in practice at other transit properties.	* \$15,000 Travel	Commence 9/1999 Complete 6/2000
Joint labor-management committee to design and implement training programs and rule revisions, including rule books and manuals.	* \$15,000 for printing. Training budget to be determined based on this process.	Commence 9/1999 Complete 6/2001
Joint labor-management committee to enable organized labor to assist in recruiting and outreach for qualified MUNI employees.	* \$15,000 for printing and travel.	Commence 12/1999
Joint labor-management committee to examine and address causes of increased Workers Comp claims.	*	Commence 12/1999 Complete 12/2000
Joint labor-management committee to develop a plan that reorganizes MUNI hiring practices so that MUNI is self sufficient, and assures fair hiring practices and procedures to achieve more streamlined hiring.	* Budget to be determined by this process.	Commence 12/1999 Complete 12/2000
Establish a professional labor relations department at MUNI	\$250,000 minimum	Commence 7/2000

* Minimum \$350,000 budget for joint labor-management project.

THE NEW MUNI'S TEN GOALS

"Realistic Goals That Lead To Reliable Service"

Goal 5: Improve Maintenance and Availability of Rolling Stock

GOAL: Establish availability goals and stabilize the mean distance between failures to match industry standards for each MUNI transit mode.

MEASURE: 4000 miles MDBF* by June 30, 2000 in Standard and Artic Motor Coach
 900 miles MDBF by June 30, 2000 in Standard and Artic Trolley Coach
 3000 miles MDBF by June 30, 2000 in Light Rail Breda Cars
 2800 miles MDBF by June 30, 2000 in Cable Cars
 All modes meet industry standards by June 30, 2002

*MDBF = Mean Distance Between Failures

Program	Cost	Schedule
Fund an annual budget for replacing tooling and equipment items costing over \$1,000 each.	\$3.6 Mil.	Commence 9/1999
Develop procedures and training on how road calls are tracked, responded to, and recorded. This includes study of transit property best practices and FTA rules.	\$75,000 training and printing cost. One time cost.	Commence 9/1999 Complete 12/2000
Implement a Full Quality Assurance program: 1) Rolling Stock is checked pull-out and pull-in. 2) 120 day Body Preventive Maintenance program 3) Zero Tolerance on Graffiti and Broken Windows 4) Hire technical staff 5) Implement a Warranty Program 6) Develop an Audit process	\$4.5 Mil.	Commence 9/1999 Fully Implemented by 6/2001
Implement a preventive maintenance enhancement program that produces a pre-inspection by one crew and repair work by another crew. This program includes added staffing, Preventive Maintenance training, material support and a process of "kit" development.	\$1.6 Mil.	Commence 12/1999 Fully Operational By 12/2000
Improve the material control process by reorganizing the purchasing and procurement function so that MUNI is self-sufficient and has adequate financing for inventory control and adequate space for Central Warehousing.	\$6.1 Mil.	Commence 7/2000 Fully Implemented by 12/2001
Implement a full Vehicle Overhaul program in Trolley, Motor Coach, Light Rail and Cable Car. In Trolley and Motor Coach, every 6 years; in Light Rail, every 5 years; Cable Car every 5 years.	\$95 Mil over the lifecycle of current fleet vehicles.	Commence Program 1/2002

THE NEW MUNI'S TEN GOALS

"Realistic Goals That Lead To Reliable Service"

Goal 6: Maintain Accessibility

GOAL: Maintain MUNT's national leadership position in accessibility.

MEASURE: Meet or exceed ADA standards by 2002.

Program	Cost	Schedule
Continue to foster a strong relationship with the disabled community and consumer groups to provide input on access issues.	Existing Staff	Underway
Assure that all new vehicles have user friendly and state of the art accessibility features.	Existing Staff	Underway
Assure optimum design for accessibility to the new Third Street Light Rail line without the need for special separate systems for persons with disabilities.	Existing Staff	Complete by 9/1999
Expand specific accessibility training modules for MUNI personnel.	\$80,000	Commence 9/1999
Implement a pilot program to expand transit options for ambulatory paratransit taxi users with a mixed mode, prescheduled van service.	\$180,000 1-year pilot	Commence 9/1999 Complete pilot program 12/2000
Implement a new paratransit electronic fare payment mechanism that is required for all San Francisco licensed taxis.	\$2.7 Mil	Commence pilot by 12/1999 Complete project by 12/2001
Improve community outreach efforts in the Paratransit system by establishing or expanding partnerships with local agencies and community based organizations, providing training in paratransit eligibility and improving access to information and services for linguistic minorities.	Negotiated with broker at the time of contract renewal	Commence Outreach 1/2000 Commence Training 6/2000
Construct further accessible key stops as part of the track replacement project.	TBD at the time of design	Commence 2000 Complete 2005

APPENDIX D

San Francisco Administrative Code Chapter 12B**Nondiscrimination in Contracts**

Sec. 12B.1. All Contracts and Property Contracts to Include Nondiscrimination Provisions; Definitions.

Sec. 12B.2. Nondiscrimination Provisions.

Sec. 12B.3. Human Rights Commission Empowered.

Sec. 12B.4. Nondiscrimination Guidelines.

Sec. 12B.5. Chapter Applies Only to Discriminatory Employment Practices.

Sec. 12B.5-1. Nonapplicability, Exceptions and Waivers.

Sec. 12B.6. Severability.

[Provisions relating to the Nondiscrimination in Contracts--Equal Benefits Ordinances appear in Sections 12B.1, 12B.2 and 12B.5-1.]

Section 12B.1. All contracts and property contracts to include nondiscrimination provisions; Definitions.

(a) All contracting agencies of the City, or any department thereof, acting for or on behalf of the City and County, shall include in all contracts and property contracts hereinafter executed or amended in any manner or as to any portion thereof, a provision obligating the contractor not to discriminate on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), against any employee of, any City employee working with, or applicant for employment with such contractor and shall require such contractor to include a similar provision in all subcontracts executed or amended thereunder.

(b) No contracting agency of the City, or any department thereof, acting for or on behalf of the City and County, shall execute or amend any contract or property contract with any contractor that discriminates in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits as well as any benefits other than bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the following conditions. In the event that the contractor's actual cost of providing a certain benefit for the domestic partner of an employee exceeds that of providing it for the spouse of an employee, or the contractor's actual cost of providing a certain benefit for the spouse of an employee exceeds that of providing it for the domestic partner of an employee, the contractor shall not be deemed to discriminate in the provision of benefits if the contractor conditions providing such benefit upon the employee agreeing to pay the excess costs. In addition, in the event a contractor is unable to provide a certain benefit, despite taking reasonable measures to do so, the contractor shall not be deemed to discriminate in the provision of benefits if the contractor provides the employee with a cash equivalent.

(c) Definitions. As used in this Chapter the following words and phrases shall have the meanings indicated herein:

"Age" shall mean the age of any employee or applicant for employment who has attained the age of 40 years and has not attained the age of 65 years. For the purposes of this Chapter, discrimination because of age shall mean dismissal from employment of, or refusal to employ or rehire any person because of his or her age, if such person has attained the age of 40 years and has not attained the age of 65 years, if the person is physically able and mentally competent to perform the services required. Age limitations of apprenticeship programs in which the State or its political subdivisions participate shall not be considered discriminatory within the meaning of this Chapter.

"Amend" shall mean to substantively change the terms of a pre-existing contract, and shall not include amendments to decrease the scope of work or the amount to be paid under a contract. Construction change orders shall not be construed as contract amendments for the purposes of this Chapter.

"City" shall mean the City and County of San Francisco.

"Commission" shall mean the Human Rights Commission of the City and County of San Francisco.

"Contract" shall mean an agreement for public works or improvements to be performed, or for goods or services to be purchased or grants to be provided, at the expense of the City and County or to be paid out of moneys deposited in the treasury or out of trust moneys under the control or collected by the City and County, and does not include property contracts, agreements entered into after June 1, 1997 pursuant to settlement of legal proceedings, contracts for urgent litigation expenses, or contracts for a cumulative amount of \$5,000 or less per vendor in each fiscal year.

"Contractor" means any person or persons, firm, partnership, corporation, or combination thereof, who enters into a contract or property contract with a department head or officer empowered by law to enter into contracts or property contracts on the part of the City and County.

"Director" shall mean the Director of the Human Rights Commission.

"Disability" shall mean a physical or mental impairment which substantially limits one or more major life activities, or a record of such an impairment.

"Domestic Partner" shall mean any person who has a currently registered domestic partnership with a governmental body pursuant to state or local law authorizing such registration.

"Gender identity" shall mean a person's various individual attributes as they are understood to be masculine and/or feminine.

"Property Contract" shall mean a written agreement for the exclusive use or occupancy of real property for a term exceeding 29 days in any calendar year, whether by singular or cumulative instrument, (i) for the operation or use by others of real property owned or controlled by the City for the operation of a business, social, or other establishment or organization, including leases, concessions, franchises and easements, or (ii) for the City's use or occupancy of real property owned by others, including leases, concessions, franchises and easements. For the purposes of this Chapter, "exclusive use" means the right to use or occupy real property to the exclusion of others, other than the rights reserved by the fee owner. "Property Contract" shall not include a revocable at will use or encroachment permit for the use of or encroachment on City property regardless of the ultimate duration of such permit, except that "property contract" shall include such permits granted to a private entity for the use of City property for the purpose of a for-profit activity. "Property Contract" shall also not include street excavation, street construction or street use permits, agreements for the use of City right of way where a contracting utility has the power of eminent domain, or agreements governing the use of City property which constitutes a public forum for activities that are primarily for the purpose of espousing or advocating causes or ideas and that are generally recognized as protected by the First Amendment to the U.S. Constitution, or which are primarily recreational in nature.

"Qualified Disabled Employee" shall mean a person able to perform the essential functions of a job with reasonable accommodation.

"Sex" shall mean the character of being male or female.

"Sexual orientation" shall mean the status of being lesbian, gay, bisexual or heterosexual.

"Subcontract" shall mean an agreement to (i) provide goods and/or services, including construction labor, materials or equipment, to a contractor, if such goods or services are procured or used in the fulfillment of the contractor's obligations arising from a contract with the City, or (ii) to transfer the right to occupy or use all or a portion of a real property interest subject to a property contract to a subcontractor and pursuant to which the contractor remains obligated under the property contract.

"Subcontractor" means any person or persons, firm, partnership, corporation or any combination thereof, who enters into a subcontract with a contractor. Such term shall include any person or entity who enters into an agreement with any subcontractor for the performance of 10 percent or more of any subcontract.

(d) The requirements of this Chapter shall apply to (i) any of a contractor's operations within San Francisco; (ii) a contractor's operations on real property outside of San Francisco owned by the City or which the City has a right to occupy if the contractor's presence at that location is connected to a contract or property contract with the City; (iii) where the work is being performed by a contractor for the City within the United States; and (iv) any of a contractor's operations elsewhere within the United States.

Section 12B.2. Nondiscrimination provisions

Every contract and property contract for or on behalf of the City shall incorporate by reference and require the contractor to comply with the provisions of Section 12B.2. In addition, all contractors must incorporate by reference in all subcontracts and require subcontractors to comply with the requirements set forth in Sections 12B.2(a) and 12B.2(c)-12B.2(k), and failure to do so shall constitute a material breach of contract.

In the performance of a contract the contractor agrees as follows:

(a) In any of its operations within the United States, the contractor or subcontractor will not discriminate against any employee, City and County employee working with such contractor or subcontractor, or applicant for employment with such contractor or subcontractor on the basis of the fact or perception of that person's race, color, religion, ancestry, national origin, age, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or AIDS/HIV status. Discrimination on the basis of sex includes sexual harassment as defined in Section 16.9-25(B) of this Code. The contractor or subcontractor will take action to ensure that applicants are employed, and that employees are treated equally during employment, without regard to the fact or perception of their race, color, creed, religion, ancestry, national origin, age, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or AIDS/HIV status. Such action shall include, but not be limited to, the following: Employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rate of pay or other forms of compensation; and selection for training, including apprenticeship. Nothing in this Chapter shall require or prohibit the establishment of new classifications of employees in any given craft. The provisions of this Section with respect to age shall not apply to (1) termination of employment because of the terms or conditions of any bona fide retirement or pension plan, (2) operation of the terms or conditions of any bona fide retirement or pension plan which has the effect of a minimum service requirement, and (3) operation of the terms or conditions of any bona fide group or insurance plan. The contractor or subcontractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in such form and content as shall be furnished or approved

by the awarding authority setting forth the provisions of this Section.

(b) The prime contractor shall state that the prime contractor does not, and will not during the term of the contract, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits as well as any benefits other than bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the following conditions. In the event that the contractor's actual cost of providing a certain benefit for the domestic partner of an employee exceeds that of providing it for the spouse of an employee, or the contractor's actual cost of providing a certain benefit for the spouse of an employee exceeds that of providing it for the domestic partner of an employee, the contractor shall not be deemed to discriminate in the provision of benefits if the contractor conditions providing such benefit upon the employee agreeing to pay the excess costs. In addition, in the event a contractor is unable to provide a certain benefit, despite taking reasonable measures to do so, the contractor shall not be deemed to discriminate in the provision of benefits if the contractor provides the employee with a cash equivalent. The Director shall be the final arbiter of a contractor's or property contractor's compliance or substantial compliance with this Chapter and the Director's determination shall not be appealable to the Commission. Contractors shall treat as confidential to the maximum extent allowed by law or the requirements of contractor's insurance provider any request by an employee or applicant for employment for domestic partner or spousal benefits or any documentation of eligibility for domestic partner or spousal benefits submitted by an employee or applicant for employment.

In adopting this section 12B.2(b), the intent of the Board of Supervisors is to equalize to the maximum extent legally permitted the total compensation between similarly situated employees with spouses and employees with domestic partners.

In particular, consistent with the severability clause set forth in section 12B.6 below, the Board of Supervisors intends that if a court or agency of competent jurisdiction finds that a state or federal law, rule or regulation invalidates (a) the application of this section to any business, person, type of compensation or benefit, or location, or (b) any other requirement of this section, then the court or agency should sever the invalid clause and leave in effect the remainder of this section.

(c) The contractor or subcontractor shall provide reasonable accommodation for qualified disabled applicants for employment and for qualified disabled employees. Said contractor or subcontractor need not provide reasonable accommodation if such would present an undue hardship. An undue hardship may include but not be limited to more than a de minimus cost, violation of the seniority rights of other co-workers as established by a bona fide seniority system, or a health or safety risk to the employee or co-employees. The burden of establishing an undue hardship rests on the employer.

(d) The contractor or subcontractor will in all solicitations or advertisements for employees placed by or on his or her behalf, state that qualified applicants will receive consideration for employment without regard to the fact or perception of their race, creed, religion, color, ancestry, national origin, age, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or AIDS/HIV status.

(e) The contractor or subcontractor will send to each labor union or representative of workers with which he or she has a collective bargaining agreement or other agreement or understanding, a notice, in such form and content as shall be furnished or approved by the awarding authority, advising the said labor union or workers' representative of the contractor's or subcontractor's commitments under this Section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(f) The contractor or subcontractor will permit access to its records of employment, employment advertisements, application forms, and other pertinent data and records by the Commission, the City's awarding authority or the Fair Employment and Housing Commission, for the purposes of investigation to ascertain compliance with the nondiscrimination provisions of this Chapter, and upon request shall provide evidence that the contractor has complied or will comply with the nondiscrimination provisions of this Chapter.

(g) A contractor or subcontractor shall be deemed to have breached the nondiscrimination provisions of this Chapter upon:

(1) A finding by the Director or such other official who may be designated by the Commission, that the contractor or subcontractor has willfully violated such nondiscrimination provisions; or

(2) A finding by the California Fair Employment and Housing Commission that a contractor or subcontractor has violated any provision of the California Fair Employment and Housing Act or the nondiscrimination provisions of this Chapter, provided that the Fair Employment and Housing Commission has issued a final order pursuant to Section 12970 of the Government Code, or has obtained a judgment and order enforcing the final order pursuant to Section 12973 of the Government Code; provided further, that for the purposes of these provisions, an order or injunction shall not be considered final during the period within which (1) appeal may be taken, or (2) the same has been stayed by order of court, or (3) further proceedings for vacation, reversal or modification are in progress before a competent administrative or judicial tribunal.

(3) Upon such finding by the Director or other official designated by the Commission, or the Fair Employment Practices Commission, the awarding authority shall notify the contractor or subcontractor that unless the contractor or subcontractor demonstrates to the satisfaction of the Director or other official designated by the Commission, within such reasonable period as the Commission shall determine, that the violation has been corrected, action will be taken as set forth in Subparagraph (h) and (i) hereof.

(4) The Commission shall, within ten days of the date of issuance of any finding by the Director or other official designated by the Commission for the enforcement of this Chapter, mail to any person or persons affected by said finding, a copy of said finding, together with written notice of the right to appeal such finding. Notice of appeal must be filed in writing with the Chairperson of the Commission within 20 days of the date of mailing said copy and notice.

(5) For purpose of appeal proceedings under this Section, a quorum shall consist of eight members of the Commission. The vote of the majority of the full Commission shall be necessary to affirm reverse or modify such decisions, order or other action rendered hereunder. Should a member of the Commission be designated under Section 12B.2(g)(1) of this Chapter, that Commissioner may not participate in an appeal under this Section except as a witness.

(6) The presiding officer of the Commission shall have the power to administer oaths to witnesses in appeals before the Commission under this Section. In the event that any person shall fail or refuse to appear as a witness in any such proceeding after being requested to do so, and if it shall appear to the Commission that his or her testimony, or books, records, documents or other things under his or her control are material and relevant as evidence in the matter under consideration by the Commission in the proceeding, the presiding officer of the Commission may subpoena such person, requiring his or her presence at the proceeding, and requiring him or her to bring such books, records, documents or other things under his or her control.

(7) All appeals to the Commission shall be open to the public. Records and minutes shall be kept of such proceedings and shall be open to public inspection. Upon reaching a decision in any appeal, the Commission shall give written notice thereof to the Director or other official designated by the Commission, and the appellant or appellants. The decision of the Commission shall be final unless within 15 days of the filing and service of written notice thereof appropriate legal proceedings are

filed in a court of competent jurisdiction by any party to the contract, property contract or subcontract.

(8) If any contractor or subcontractor shall fail to appear at an appeal proceeding of the Commission after having been given written notice to appear, such failure to appear shall be grounds for termination of the contract, property contract or subcontract and such contractor or subcontractor shall be deemed to have forfeited all rights, benefits and privileges thereunder.

(9) The Commission shall promulgate rules and regulations for the implementation of the nondiscrimination provisions of this Chapter.

(h) The awarding authority may deduct from the amount payable to the contractor or subcontractor by the City under any contract or property contract subject to this Chapter, or may impose upon the contractor or subcontractor, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Chapter. In addition to any other penalties provided for the violation of the nondiscrimination provisions of this Chapter or for the failure of any contractor or subcontractor to abide by the rules and regulations of the Commission, the contract, property contract or subcontract may be terminated or suspended, in whole or in part, by the awarding authority upon the basis of a finding as set forth in Section 12B.2(g) that the contractor has discriminated contrary to the provisions of this Chapter, and all moneys due or to become due hereunder may be forfeited to, and retained by, the City.

(i) A breach of the nondiscrimination provisions in the performance of a contract, property contract or subcontract shall be deemed by the City to be material breach of contract and the basis for determination by the awarding authority that the contractor or subcontractor is an irresponsible bidder as to all future contracts or property contracts for which such contractor or subcontractor may submit bids. Such contractor or subcontractor shall not for a period of up to two years thereafter, or until it shall establish and carry out a program in conformity with the nondiscrimination provisions of this Chapter, be allowed to act as a contractor or subcontractor under any contract or property contract.

(j) Nothing contained in this Chapter shall be construed in any manner so as to prevent the City from pursuing any other remedies that may be available at law, equity or under any contract or property contract.

(k) The contractor or subcontractor will meet the following standards for compliance:

(1) If the contractor or subcontractor has been held to be an irresponsible bidder under Section 12B.2(i) hereof, the contractor or subcontractor shall furnish evidence that it has established and is carrying out a program in conformity with the nondiscrimination provisions of this Chapter.

(2) The contractor or subcontractor may be required to file with the Commission a basic compliance report, which may be a copy of the federal EEO-1, or a more detailed report as determined by the Commission. Willful false statements made in such reports shall be punishable as provided by law. No contractor or subcontractor supplier shall be held in noncompliance for not filing such a report with the Commission unless it has been specifically required to do so in writing by the Commission.

(3) Personally, or through its representatives, the contractor or subcontractor shall, through negotiations with the unions with whom it has collective bargaining or other agreements requiring the contractor or subcontractor to obtain or clear its employees through the union, or when the contractor or subcontractor otherwise uses a union as an employment resource, attempt to develop an agreement which will:

(A) Define and outline responsibilities for nondiscrimination in hiring, referral, upgrading and training;

(B) Otherwise implement a nondiscrimination program in terms of the unions' specific areas of skill and geography, such as an apprenticeship program, to the end that minority workers will be available and given an equal opportunity for employment.

(4) The contractor or subcontractor shall notify the awarding authority of opposition to the nondiscrimination provisions of a contract by individuals, firms or organizations during the term of the contract.

Sec. 12B.3. Human Rights Commission Empowered

The San Francisco Human Rights Commission, its presiding officer and its director are hereby granted the power to do all acts and exercise all powers referred to in Section 12B.2 hereof.

Sec 12B.4. Nondiscrimination Guidelines

The following nondiscrimination guidelines shall apply to all contracts and property contracts subject to this Chapter.

In order to be eligible to submit a bid or proposal or to have a bid or proposal considered by the awarding authority, the prospective contractor shall agree to abide by a nondiscrimination program which conforms to the requirements of the Commission.

The Commission may also require contractors and subcontractors to take part in a pre-bid or pre-award conference in order to develop, improve or implement a qualifying nondiscrimination program.

(a) Nondiscrimination programs developed pursuant to this Section shall be effective for a period of 12 months from the date of approval by the Commission. Contractors or subcontractors who are members in good standing of a trade association which has negotiated a nondiscrimination program with the Commission may make this association program their commitment for the specific contract or property contract upon approval of the Commission without the process of a separate pre-bid or pre-award conference. Such an association agreement shall be effective for a period of 12 months from the date of approval by the Commission. Trade associations shall provide the Commission with a list of members in good standing in such association. The Commission shall annually supply contracting agencies of the City and County with a list of contractors and subcontractors who have developed approved nondiscrimination programs.

(b) The awarding authority shall be responsible for notifying all prospective bidders or proposers of the requirements of this Section and, when requested by the Commission, for notifying the Commission of each contract or property contract which is being proposed to be put to public bid.

(c) The proposed nondiscrimination program described by this Section, and the pre-bid or pre-award conference which may be required by the Commission, shall, without limitation as to the subject or nature of employment activity, be concerned with such employment practices as:

(1) Apprenticeship where approved programs are functioning, and other on the job training for nonapprenticeable occupations;

(2) Classroom preparation for the job when not apprenticeable;

(3) Pre-apprenticeship education and preparation;

(4) Upgrading training and opportunities;

(5) Encouraging the use of contractors and subcontractors of all ethnic groups, provided, however, that any contract, or property contract subject to this Chapter shall require the contractor or subcontractor to provide not less than the prevailing wage, working conditions, and practices

generally observed in private industries in the City for such work; and

(6) The entry of qualified minority journeyperson into the industry.

(d) Nondiscrimination agreements resulting from the proposed nondiscrimination programs or the pre-bid or pre-award conferences shall not be confidential and may be publicized by the Commission at its discretion. In addition, the Commission may report to the Board of Supervisors, either on request of the Board or on its own initiative, on the progress or the problems which attend the implementation of these agreements or any other aspect of enforcement of this Chapter.

(e) Any job training or education program using the funds, facilities, or staff of the City which, in the judgment of the Board of Supervisors or the Commission, can make a contribution to the implementation of this Chapter shall submit reports to the Commission as requested and shall be required to cooperate with the contractors, subcontractors and unions and with the Commission for the effectuation of the nondiscrimination programs developed under this Chapter.

Sec. 12B.5. Chapter Applies Only to Discriminatory Employment Practices

(a) This Chapter shall not confer upon the City and County of San Francisco or any agency, board or commission thereof any power not otherwise provided by law to determine the legality of any existing collective bargaining agreement and shall have application only to discriminatory employment practices by contractors or subcontractors engaged in the performance of City and County contracts or property contracts.

(b) The Board of Supervisors shall appropriate such funds from the General Fund of the City, subject to budgetary and fiscal provisions of the Charter, as it may deem necessary for the enforcement of this Chapter.

Sec. 12B.5-1. Non-applicability, Exceptions and Waivers

(a) The Director shall waive the requirements of this Chapter under the following circumstances:

1. Whenever the Director finds, upon the advice of the awarding authority, that there is only one prospective contractor willing to enter into a property contract with the City for use of City property on the terms and conditions established by the City, or that the needed goods, services, construction services for a public work or improvement, or interest in or right to use real property are available only from a sole source, and the prospective contractor is not currently disqualified from doing business with the City, or from doing business with any governmental agency based on any contract compliance requirements;
2. If the contracting department, board or commission certifies in writing to the Director that pursuant to Administrative Code Sections 6.30 or 21.25 the contract or property contract is necessary to respond to an emergency which endangers the public health or safety and no entity which complies with the requirements of this Chapter capable of responding to the emergency is immediately available; provided that such certification must be made prior to the Controller's contract certification.
3. Where the City Attorney certifies in writing to the Director that the contract involves specialized litigation requirements such that it would be in the best interests of the City to waive the requirements of this Chapter.

(b) This Chapter shall not apply where the prospective contractor is a public entity and the Director finds that goods, services, construction services for a public work or improvement or interest in or right to use real property of comparable quality or accessibility as are available under the proposed contract or property contract are not available from another source, or that the proposed contract or property contract is necessary to serve a substantial public interest;

(c) This Chapter shall not apply where the contracting officer finds that the requirements of this Chapter will violate or are inconsistent with the terms or conditions of a grant, subvention or agreement with a public agency or the instructions of an authorized representative of any such agency with respect to any such grant, subvention or agreement, provided that the contracting officer has made a good faith attempt to change the terms or conditions of any such grant, subvention or agreement to authorize application of this Chapter.

(d) Upon the request of a potential contractor or upon the contracting officer's own initiative, after taking all reasonable measures to find an entity that complies with the law, the contracting officer may waive any or all of the requirements of this Chapter for any contract, property contract or bid package advertised and made available to the public, or any competitive or sealed bids received by the City as of the date of the enactment of this ordinance under the following circumstances:

(1) Where the contracting officer determines that there are no qualified responsive bidders or prospective contractors who could be certified by the Commission as being in compliance with the requirements of this Chapter and that the contract or property contract is for goods, a service or a project that is essential to the City or City residents; or

(2) Where the contracting officer determines that transactions entered into pursuant to bulk purchasing arrangements through federal, state or regional entities which actually reduce the City's purchasing costs would be in the best interests of the City; or

(3) Where the contracting officer determines that the requirements of this Chapter would result in the City's entering into a contract with an entity that was set up, or is being used, for the purpose of evading the intent of this Chapter, which is to prohibit the City from entering into contracts with entities that discriminate based on the criteria set forth in this Chapter.

(4) The waiver authority granted to contracting officers in this section 12B.5-1(d) shall be subject to the requirements that:

(i) All proposed waivers must be submitted to the Director and the Clerk of the Board of Supervisors. All proposed waivers must set forth the reasons the contracting officer is requesting the waiver, what steps were taken to find an entity that complies with this Chapter and why the waiver does not defeat the intent of this Chapter, which is to prohibit the City from entering into contracts with entities that discriminate based on the criteria set forth in this Chapter. Such waivers shall be subject to the prior approval of the Director, who shall take action approving or denying a proposed waiver within 30 days of receiving a notification of a proposed waiver from a contracting officer. If after 30 days the Director has taken no action on the proposed waiver the waiver shall be deemed approved. The Clerk of the Board of Supervisors shall list the notice of the proposed waiver at the rear of the next available Board agenda; and

(ii) Contracting officers report to the Director whenever such a waiver is granted within 5 days of granting the waiver; and

(iii) For any contract subject to approval by the Board, the contracting officer shall state in the approving resolution whether any waiver under this section 12B.5-1.(d) has been or is proposed to be granted for that contract; and

(iv) The Director shall conduct quarterly comprehensive reviews of the use of the waiver authority by departments and shall make a report to the Board of Supervisors. Contracting officers who have exercised waiver authority under this section 12B.5-1.(d) in the previous quarter must appear before a Board of Supervisors committee and report on their use of such waiver authority. If the Board finds abuse of waiver authority by a department under this section 12B.5-1(d), either as a result of a report of the Director or upon its own initiative, the Board may by resolution transfer that waiver authority for that department to the Director, to be exercised by the Director upon recommendation of the contracting officer under any or all of the circumstances enumerated in this section 12B.5-1(d).

(5) Nothing in this section 12B.5-1(d) shall limit the right of the Board of Supervisors to waive the provisions of this Chapter.

(e) This Chapter shall not apply to (i) the investment of trust moneys or agreements relating to the management of trust assets, (ii) City moneys invested in U.S. government securities or under pre-existing investment agreements, or (iii) the investment of City moneys where the Treasurer finds that:

(1) No person, entity or financial institution doing business in the City and County which is in compliance with this Chapter is capable of performing the desired transaction(s); or

(2) The City will incur a financial loss which in the opinion of the Treasurer would violate his or her fiduciary duties.

This subparagraph (e) shall be subject to the requirement that City moneys shall be withdrawn or divested at the earliest possible maturity date if deposited or invested with a person, entity or financial institution other than the U.S. government which does not comply with this Chapter.

(f) The General Manager of the Public Utilities Commission may waive the requirements of this Chapter where the contractor is providing wholesale or bulk water, power or natural gas, the conveyance or transmission of same, or ancillary services such as spinning reserve, voltage control, or load scheduling, as required for assuring reliable services in accordance with good utility practice, to or on behalf of the San Francisco Public Utilities Commission; provided that the purchase of same may not practically be accomplished through the City's standard competitive bidding procedures; and further provided that this exemption shall not apply to contractors or franchisees providing direct, retail services to end users within the City and County of San Francisco.

(g) Sections 12B.1(b) and 12B.2(b) shall not apply to any contracts or property contracts, executed or amended prior to June 1, 1997, or to bid packages advertised and made available to the public, or any competitive or sealed bids received by the City, prior to June 1, 1997, unless and until such contracts or property contracts are amended after June 1, 1997, and would otherwise be subject to this Chapter.

Section 12B.6. Severability

This Chapter shall be construed so as not to conflict with applicable federal or state laws, rules or regulations. Nothing in this Chapter shall authorize any City agency to impose any duties or obligations in conflict with limitations on municipal authority established by federal law at the time such agency action is taken.

In the event that a court or agency of competent jurisdiction holds that state or federal law, rule or regulation invalidates any clause, sentence, paragraph or section of this Chapter or the application thereof to any person or circumstances, it is the intent of the Board of Supervisors that the court or agency sever such clause, sentence, paragraph or section so that the remainder of this Chapter shall remain in effect.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SAN FRANCISCO UNIFIED SCHOOL DISTRICT ("District" or "SFUSD")

PRELIMINARY STATEMENT

The 1998-1999 San Francisco Civil Grand Jury noted that in June of 1998 the voters of the State of California enacted Proposition 227 limiting bilingual teaching. The Grand Jury was also aware that many years prior to this the District had participated in a consent decree in the federal court whereby the SFUSD was required to provide bilingual instruction to the students in the District who did not have English as their native language.

The Grand Jury was desirous of determining what effect Proposition 227 would have on the District's educational system and particularly the impact on the funding of the system. The Grand Jury was also interested in whether Proposition 227 would impact the District's right to use funds that it received from various state, federal, and local sources for bilingual education purposes and whether the District would have to change any of its numerous language programs to comply with the new law. The Grand Jury did note that the District's Superintendent, Waldemar Rojas, stated publicly that the SFUSD would not obey the mandates of Proposition 227.

There are approximately 65,000 students in the SFUSD in 115 schools. Approximately 20,000 of these are classified as Limited English Proficient and receive part to all of their school instruction in a language other than English. The District receives over \$30,000,000 a year from the state and federal governments for bilingual teaching. The amount received is based on a per student computation; the more students taking some type of bilingual instruction, the more money the District receives.

However, as Assistant Superintendent in charge of the Language Academy and other language programs, Dr. Rosita Apodaca stated, the District is not obligated to spend all monies received from

the state and federal governments on bilingual education; nor does it. According to Dr. Apodaca, the District may spend these funds for any District purpose, and does.

Since the passage of Proposition 227, which in part purports to prohibit bilingual education as was conducted prior to 1999, the District has continued to provide bilingual education as it had in the past, but calls the program by several other names, *e.g.*, English Plus, rather than Bilingual. In all other respects the teaching of students with limited English proficiency is the same as it always has been.

The SFUSD was a signatory to a consent decree issued by a federal court (*Lau v. Nichols*) requiring the District to offer a wide range of bilingual programs, including courses of English immersion. Under Proposition 227, Districts are required to replace bilingual education with a one-year program of intensive English-language instruction to students who speak little or no English.

With the foregoing in mind, the Grand Jury commenced its inquiry into the economic effect of Proposition 227 and the operations of the District's language program. Unfortunately, as set out below, it met with an almost total lack of cooperation from the various District Administrators with whom it dealt. Initially this conduct consisted of repeated delaying tactics. The following are just a few of the District's delaying tactics and examples of their interference with the Grand Jury's assigned duties:

A. Delay of and Interference with Grand Jury's Investigation

The Grand Jury in its investigations of numerous departments of City and County government, and numerous Districts operating within the City and County, was treated universally with courtesy, cooperation, forthrightness and honesty by all persons in every phase of its investigations with the

notable exception of the administrators of the SFUSD. It should be noted that the school teachers and principals all conducted themselves as other representatives of City and County governmental agencies and Districts, and the Grand Jury wishes to thank them for their cooperation and forthrightness. Even the Municipal Railway, despite the numerous problems in its operation, treated the members of the Grand Jury with courtesy, openness and, as far as the Grand Jury was aware, complete cooperation. In view of the foregoing, it is most perplexing to find administrators employed by the School District to be lacking in forthrightness. They were also adversarial and confrontational. Our experience with the SFUSD administrators was such that it appeared that they consciously threw road blocks in the way of the investigators from the Grand Jury at virtually every step of its investigation. Representatives of the District gave the appearance of a conscious attempt to obfuscate the realities of the operation of the SFUSD.

The Grand Jury's problems with the District developed almost immediately at the commencement of the Grand Jury's investigation into the compliance of the District with the mandates of Proposition 227, which was approved by a 61%-39% vote in June of 1998.

1. The first inquiry of the Grand Jury was to ask the District if it had ever obtained from the City Attorney a legal opinion as to the effect of Proposition 227 on the Federal Consent Decree under *Lau v. Nichols* (which ordered the implementation of bilingual programs) which was still in place. At this time, it should be noted that no one had asked about the contents of any such opinion, assuming the SFUSD asked for and received such an opinion from the City Attorney. Both the SFUSD and the City Attorney claimed that the Grand Jury's request called for a breach of a confidential communication and placed the City Attorney in a position of breaching that confidentiality and created a conflict of interest. The Grand Jury was surprised and chagrined that the City Attorney would take this position in view of the fact that the City Attorney was also the designated attorney for the Grand Jury

We were then referred to the District Attorney to assist in getting this information, but were told by them that they were not involved in civil matters, were not informed in this area of the law, and thus could not represent the Grand Jury.

In an effort to compel both the City Attorney and the SFUSD to answer our question, we were referred to the Attorney General of the State of California, who also declined to represent us.

As provided by law, the Grand Jury went to the presiding judge of the Superior Court and requested the appointment of special counsel to represent the Grand Jury. Permission was granted contingent upon clearing the cost with the court. The presiding judge was hopeful that a law firm with expertise in School District law would do the work on a *pro bono* basis. On investigation, it was determined that the City would have to pay between \$300 and \$400 per hour for counsel for the Grand Jury. By this time, it was late April 1999, almost nine months since our first inquiry and, as will be seen, the question became moot.

As previously stated, the Grand Jury asked the District to request that our inquiry be answered by the City Attorney. This the District refused to do, which was shocking in view of the fact that some eight (8) months later, on April 26, 1999, in sworn testimony before the Grand Jury (RT 6:19-22), the superintendent, Waldemar Rojas, denied that there ever existed such an opinion. By this time, the SFUSD had managed to delay the Grand Jury investigation to the point that there were only two (2) months left in its term.

Not once did either the City Attorney's office or the School District tell the Grand Jury that there did not exist such an opinion letter. To the Grand Jury, this conduct smacked of stonewalling and of a blatant attempt to prevent the Grand Jury from doing its assigned duty.

2. Dr. Rojas promised to provide the Grand Jury during the taking of his sworn testimony the following:

a. All legal opinions generated by or for the District as to the effect of Proposition 227 on the federal court consent decree in the Lau case (RT 8:22-28, 9:1-3).

b. A list of schools in the district where there are bilingual programs and the number of students involved in these bilingual programs on any given day. (RT 12:13-23).

c. List of bilingual classes pre-effective date of Proposition 227 and post its effective date by:

(1) school; and

(2) academic level (elementary, middle and high school) (RT 13:1-5)

The foregoing information was to be provided within two weeks of April 26, 1999. The Grand Jury has never received any of this information.

3. The Grand Jury then requested the opportunity to visit schools to see for themselves the operation of the bilingual program or other programs by other names conducted by the District to teach children whose second language is English to learn how to speak, read and write English. We were told that members of the Grand Jury were security risks, that we would be disrupting classes, and that the school needed weeks of advance notice to arrange their school days. Members had to wait three to four weeks before being permitted to enter the schools. It should be mentioned that no

more than two members of the Grand Jury were ever present at any school at any one time, and that any parent may appear unannounced to view his or her child's class.

The procedure used was to speak to the principal, and then visit three to four classes, spending 10-15 minutes in each class. Our primary desire was to speak to the teachers to find out how their language programs were conducted and if they were following the law. It was the desire of the Grand Jury to visit the schools and the classrooms as close to being unannounced as possible so that they could get a feel for what was actually being taught, rather than what was being staged for their benefit. We informed Dr. Rojas that we wanted to do this without the presence of members of his administrative staff or of the Language Academy. Dr. Rojas agreed that this would be done (RT 23:6-7). In spite of his agreement to do otherwise, each and every Grand Jury visit to any school involved the presence of a representative of the Language Academy or one or more other school administrators and, in some cases, school District lawyers. In one of the schools, Ms. Den, a District lawyer, was present when members of the Grand Jury arrived, after and in spite of Dr. Rojas' assurance that this would not happen. On several occasions, Ms. Den instructed the principal not to answer the Grand Jury's questions.

Repeatedly, school administrators and members of the Language Academy attempted to interfere in our interviews with the principals and teachers. In many situations, the answers proposed by the Administrator to our questions were markedly different from those given by a teacher or principal.

4. On March 9, 1999 the C.P.A. in charge of the SFUSD Audit for 1997 and 1998 was requested to appear informally before the Grand Jury. Attached as Appendix A is a copy of the letter and enclosures so requesting. A Mr. Gary Caine of Deloitte and Touche, LLP, was identified as the principal C.P.A. in charge of this audit. Mr. Caine was given a list of the six (6) principal questions we would be asking and asked that he appear with sufficient working papers to answer them.

Initially Mr. Caine refused to appear claiming some privilege between Deloitte and Touche and the school District which made the working papers supporting the financial statement privileged.

He also claimed that he was too busy as it was tax time, in spite of the fact that he was told we would only take two to three hours commencing at 5:30 p.m.

After pointing out that there was no privilege as it related to the Grand Jury and asking Dr. Rojas to see that the Audit was produced, Mr. Caine still failed to appear at an appointed time. This time we were told that he was in New York because he was consulting with his attorneys on his appearance.

A later delay was in negotiating a release and hold harmless agreement with the SFUSD relative to any information he would give to the Grand Jury. The Grand Jury is curious as to what the District's C.P.A. could know that would expose them to liability and why and how they could extract this agreement after receiving over \$120,000 for their audit.

Although Mr. Caine had approximately two months advance notice of the questions we wanted to ask and the materials to bring, he was totally unprepared to answer these questions when he appeared before the Grand Jury. He could not tell us how much money was received by the District for bilingual education from the federal, state or local governments or the total amount so received. The dollars involved exceed \$30 million, as Dr. Apodaca stated. It is difficult to understand, given two months notice, why the auditor could not locate this number. The same is true with respect to the expenditure of funds for bilingual purposes. In this audit the C.P.A. could not identify one dollar spent for bilingual education. Because of our other experiences with District personnel, it would lead one to believe that the District did not want us to know how little of the funds were used for the purposes intended. Given more time these numbers could be obtained.

5. It wasn't until subpoenas were about to be issued that Dr. Rojas and Mr. Caine appeared before the Grand Jury.

B. Manipulation of Reported Numbers

In our interviews with both teachers and principals, we found that there was a great deal of pressure placed on these educators to show numerical improvement in test scores from year to year, just as the Superintendent was pressured to reduce the reported dropout rate in high schools

Based on the data provided by the District, it was determined that less than half of the students in the District are taking the Comprehensive Test of Basic Skills (CTBS). Further, analysis of the data provided us reveals that while student enrollment remains flat, test results for fewer students are being reported each year. This raises the question of whether the small gains in test scores reported are real or manipulated.

By the District's own count, 30% of its students are Limited English Proficient. However, over 50% of the District students do not take the standardized test. The teachers and principals have the power to excuse any pupil they feel is not ready to take the test, regardless of the student's language proficiency. The pressure on these educators to improve the test scores every year may very well determine who takes these tests.

The explanation given by Dr. Rojas for the reduced number of students taking the tests in spite of level enrollment is that, "We test all students who are eligible to be tested . . ." (emphasis added). (Letter from Waldemar Rojas to SFUSD Stakeholders dated April 15, 1999.) The key word here is "eligible." Eligibility is a subjective criterion. If for any reason the teacher, principal or administrator feels that a student should not have to be tested, the student is eliminated from the measured group.

If one wants to increase test scores of a measured group, all that need be done is to eliminate more and more marginally performing students from the group.

A further example of the unreliability of figures provided by the SFUSD is the Superintendent's claim that the drop out rate for high school students was 2.5 to 3.0%. Using the District's own data, the following is a list of all high schools, the number of students reported in the eleventh grade in the previous year and the number of twelfth grade students reported in 1998. The third column shows the percentage decline in students in the twelfth grade from those in the eleventh. This computation constitutes a very rough method of measuring the drop out rate. There may be a variety of reasons other than dropping out which would help account for the decline in attendance between the eleventh and twelfth grades. The question is, where did almost 1400 high school students go if they did not drop out? In virtually all the high schools the District's numbers do not reveal declines in attendance between years nine, ten and eleven anywhere near the same magnitude as that between the eleventh and twelfth grade, which on average was over 29.3%.

1998

HIGH SCHOOL	11 TH GRADE STUDENTS	12 TH GRADE STUDENTS	PERCENT DROPOUT
Balboa	499	260	48%
Burton	326	218	33%
Downtown	46	30	33%
Galileo	490	275	44%
Independence	176	114	38%
International	124	116	5%
Lincoln	531	398	28%
Lowell	642	653	-1.6%
Marshall	213	193	9%
McAteer	363	246	33%
Mission	306	162	45%
O'Connell	120	48	60%
School of the Arts	119	94	20%
Wallenberg	168	130	20%
Washington	699	505	27%

Percentage Approximate 29.3%

C. Miscellaneous Issues

1. The Grand Jury found that there was generally a feeling of fear and mistrust between the teachers and principals on the one hand and the superintendent and his staff on the other. Whenever a document was produced with the name of a teacher or principal on it, we were requested to redact the name before using the document. When asked why use this procedure, we were told that the superintendent and his staff were vindictive and may transfer the cooperating teacher or principal to an undesirable school or job as punishment for giving us the document.

The paranoia existed not only with the teachers and principals, but also with the Superintendent and his staff. It was very clear that there existed a party line with respect to the matters discussed above and that the Superintendent and his staff wanted the answers to our questions orchestrated according to what they wanted and not necessarily what was happening in the schools.

2. There was an allegation that the Chinese students were being discriminated against by the superintendent. There just wasn't enough time to thoroughly investigate this serious charge made by a responsible employee of the District.

3. It appeared that the District may not be in compliance with the State Board of Education's directives with respect to the District's language programs. In January of 1997, under Dr. Rosita Apodaca, the Language Academy was established. All bilingual and other language programs were administered through the Language Academy. In December of 1998 Dr. Apodaca sent the attached e-mail to all principals [Appendix B]. It was only in May 1999 at the end of the school year that the District conducted a workshop to explain LALAR and LPAAAC as well as other matters covered by the e-mail. Only one teacher had complied with the letter and this is because the teacher did it on

her own. We were informed that as of the middle of May 1999 virtually no student was in compliance, except as noted.

4. There were no teachers who concurred with the Language School and its administrators that it should take between five to seven years for a child who spoke little or no English to master it sufficiently to be taught in it. With possible isolated exceptions we were told that a child should be able to learn English in one and a half to two years and that the five to seven year program was to ensure that the bilingual dollars flowed into the District as long as possible.

There are at least six (6) schools in the District where no English is spoken (3 Spanish, 2 Cantonese, 1 Filipino). The students purportedly are placed in these schools at their parents request and allegedly already speak, read and write English fluently. One questions if a child can learn Spanish by total immersion as well as all the other academic subjects he must learn, then why can't a child be immersed in an English speaking school and do the same? Clearly there is no economic incentive for this to happen, but there is for the reverse.

Because of time constraints we were unable to visit all the schools we would have liked. We did request to visit Galileo High School and were told we would have to make an appointment and that the Language Academy would get back to us. When we called back after not hearing from them, we were told it would not be possible for us to visit the school.

D. Recommendations

It is recommended that the next Grand Jury continue the study of the SFUSD's operations in the areas already commenced as well as the following:

1. Interview the District controller and chief financial officer.
2. Interview members of the School Board.
3. Analyze in depth the various statistics on language programs conducted by the District.
4. Look into the allegation that the District discriminates against Chinese students.
5. Review the consents of parents to have their children taught in a language other than English.
6. The SFUSD should keep track of the attrition rates as well as their presently defined dropout rates. The SFUSD should determine how many of the attritions between eleventh and twelfth grades are attending continuation high schools. These statistics would be useful in assessing the utility of the education they have received.
7. Determine what the requirements are for language programs being offered by the District, with the end in mind of determining if there is compliance.
8. The Grand Jury should be authorized to retain its own independent counsel. The excuse given by the City Attorney for not providing the Grand Jury with legal representation was that the City Attorney represents the District. This would apply to any legal issues raised by any other department of city government. The City Attorney purports to represent all of City and County Government. The stance taken by the City Attorney leaves the Grand Jury with no legal representation in its investigation of City and County Government.

9. The issue of social promotion and the use of the schools in summer rather than blindly promote, should be reviewed.

10. Visit at least a dozen additional schools including those that teach in a language other than English as well as those that teach partially in English.

11. Subpoena all SFUSD administrators to be interviewed instead of running the risk of failure to appear in response to an informal request.

RESPONSES REQUIRED

Mayor

Superintendent of Schools

Board of Education

City Attorney

APPENDICES

APPENDIX A

Letter Dated March 9, 1999, from Jay Martin to Gary Caine, Deloitte & Touche

APPENDIX B

December 15, 1998, E-Mail Transmittal from Dr. Rosita Apodaca to School Principals

APPENDIX A



CITY AND COUNTY OF SAN FRANCISCO GRAND JURY

OFFICE

400 MCALLISTER ST., ROOM 008

SAN FRANCISCO, CA 94102

TELEPHONE: (415) 551-3605

March 9, 1999

Mr. Gary Caine
Deloitte & Touche LLP
50 Fremont Street
San Francisco, CA 94105

Dear Mr. Caine:

The Grand Jury of the City and County of San Francisco is in the process of reviewing various functions of the government of the county and related districts.

Among other inquiries, we are reviewing some of the financial activities of the San Francisco Unified School District (SFUSD). In reviewing the audits prepared under your firm's direction, questions have arisen regarding detail that is not set out specifically in your audit reports.

We are in no way quarreling with your report or the propriety of any work done by you. We are merely interested in obtaining more detail for our review.

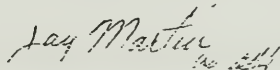
Along the foregoing lines, we would appreciate it if you would appear before us to participate in a review of your 1997 and 1998 audits. To assist you in the direction we are going, enclosed is a list of the principal questions whose answers we would like.

We would like you to appear with us in a very informal setting at 5:30 p.m., March 15, 1999, in Room 617, at 400 McAllister Street, San Francisco, with sufficient papers to provide us with the answers to the enclosed questions.

If you have any questions regarding the foregoing, please contact the Grand Jury Coordinator, Mr. Gary Giubbini, at the above address or please call him at (415) 551-3605.

We would like to thank you in advance for your courtesy and cooperation in this matter.

Very truly yours,



Jay Martin, Member
1998-99 Civil Grand Jury

For each year 1997 and 1998 please state separately by year.

- 1) The total monies received by the San Francisco Unified School District (SFUSD) for bilingual education purposes from:
 - a. the federal government;
 - b. the State of California;
 - c. any other source or sources; and
 - d. the total amount of monies received by the SFUSD from all sources.
- 2) Money spent each year by the SFUSD for bilingual education for:
 - a. salaries for administrators of the bilingual education program;
 - b. salaries for staff of administrators of the bilingual education program;
 - c. salaries for bilingual program teachers;
 - d. the number of teachers in the bilingual program;
 - e. the number of administrators of the bilingual education program;
 - f. the number of other paid persons in the bilingual program;
 - g. salaries of each bilingual administrator and his or her job title;
 - h. expenditures for purposes other than teachers and administrators salaries for bilingual education by the SFUSD identifying each purpose separately; and
 - i. total monies expended by the SFUSD for bilingual education purposes. (Please list categories of all expenditures.)
- 3) State in detail the purposes for which monies were spent that were received for bilingual education but were spent for other educational purposes, and their amounts.

For each year 1997 and 1998 please state separately by year.

- 1) The total monies received by the San Francisco Unified School District (SFUSD) for special education purposes from:
 - a. the federal government;
 - b. the State of California
 - c. any other source or sources; and
 - d. the total amount of monies received by the SFUSD from all sources.
- 2) Money spent each year by the SFUSD for special education for:
 - a. salaries for administrators of the special education program;

- b. salaries for staff of administrators of the special education program;
- c. salaries for special education program teachers;
- d. the number of teachers in the special education program;
- e. the number of administrators of the special education program;
- f. the number of other paid persons in the special education program;
- g. salaries of each special education administrator and his or her title;
- h. expenditures for purposes other than teachers and administrators salaries for special education by the SFUSD identifying each purpose separately; and
- i. total monies expended by the SFUSD for special education purposes. (Please list categories of all expenditures.)

3) State in detail the purposes for which monies were spent that were received for special education but were spent for other educational purposes and their amounts.

APPENDIX B

X-Sender: rapodac@muse.sfusd.k12.ca.us

Date: Tue, 15 Dec 1998 09:52:08 -0800

To: high@muse.sfusd.edu, middle@muse.sfusd.edu, elementary@muse.sfusd.edu

From: Rosita Apodaca <rapodac@muse.sfusd.k12.ca.us>

Subject: SBOE Mandates SFUSD Implement ELD

Cc: wrojas@muse.sfusd.edu, gchan1@muse.sfusd.edu, jquinn2@muse.sfusd.edu,
jkell@muse.sfusd.edu, dtalari@muse.sfusd.edu, ljones@muse.sfusd.edu,
rhong@muse.sfusd.edu

Mime-Version: 1.0

Status: RO

Dear Principals:

Today, I received another call from Sacramento asking for further elaboration on how we could assure the State Board of Education that every single LEP student in the District was receiving ELD instruction at his/her level of proficiency in English. We have been requested to guarantee that every student has been:

1. Assessed for proficiency level (LALAR),
2. Placed with a credentialed teacher who has received training in (assessment and instructional),
3. Provided appropriate ELD materials, and
4. Monitored for progress (LPAAAC).

Furthermore, we must guarantee that we are providing training for the teachers and that we are monitoring their implementation of the articulated program.

I have been asked to get assurances from the Cabinet level officers who operate the schools and Curriculum and Instruction for presentation to the SBOE.

We are trying to be in complete compliance to avoid any potential withholding of funds. We have been assured that San Francisco is a District the SBOE is monitoring closely. I ask for your support and assistance, making sure that our ELD program is implemented according to our articulated design.

Please note that the LALAR and the LPAAAC processes are not optional for any school. Both are required activities. Please call our office for more information and or assistance.

I thank you for all you have done already and request your continued help and assistance with this request.

Rosita Apodaca

SHERIFF'S DEPARTMENT



SHERIFF'S DEPARTMENT

INTRODUCTION

Each Grand Jury is required to inquire into the conditions and management of the prisons within the control of the City and County of San Francisco.

The 1998-1999 Civil Grand Jury made visits to all the jails under the jurisdiction of the City and County of San Francisco. The inmate facility, located at San Francisco General Hospital, was also visited.

FACILITY LOCATIONS

County Jail #1	6 th Floor, Hall of Justice 850 Bryant St., San Francisco, 94103 Telephone 553-1430
County Jail #2	7 th Floor, Hall of Justice 850 Bryant St., San Francisco, 94103 Telephone 553-1851
County Jail #3	San Bruno, Main Jail 1 Moreland Drive, San Bruno, 94066 Telephone (650) 266-9300
County Jail #5	San Francisco General Hospital-Ward 7D/7L 1001 Potrero Avenue, San Francisco, 94110 Telephone 553-1098

County Jail #7	San Bruno, Program Facility 1 Moreland Drive, San Bruno, 94066 Telephone (650) 266-9500
County Jail #8	San Francisco Program Facility 425 - 7 th Street, San Francisco, 94103 Telephone 522-8000
County Jail #9	Intake/Release Center 425 - 7 th Street, San Francisco, 94103 Telephone 522-8000
Administration Section	1 Dr. Carlton B. Goodlett Place, Room 456 City Hall, San Francisco, 94102 Telephone 554-7225
Alternative Program	555 - 7 th Street, Room 201 San Francisco, CA 94103 Telephone 558-2470
Treasure Island "Brig"	Treasure Island

MAXIMUM INMATE CAPACITY AT JAILS

<u>FACILITY DESIGNATION</u>		<u>INMATE CAPACITY</u>	
		<u>S.F.S.D.</u>	<u>B.O.C.</u>
County Jail #1	Male	392	360
	Female	56	66
	Total	458	426

County Jail #2	Male	326	273
	SW Male (Wks)	54	58
	SW (Post 28)	50	-
	GYM	26	-
	Female	58	43
	Total	438	374
County Jail #3	Male Total	750	557
County Jail #5 S.F.G.H. 7D	Male & Female	11	-
County Jail #5 S.F.G.H. 7L	Male & Female	12	-
County Jail #7	Male Total	336	336
County Jail #8	GP Male	242	248
	GP Female	142	144
	Pod C-Psych M/F	38	-
	Pod C-Med/F	38	-
	Total	456	392
County Jail #9 (Holding Only)	Male/Female	301	-
OVERALL TOTALS		2,362	2,085
Treasure Island "Brig" not included at this time.			

SPECIAL PROGRAMS PROVIDED FOR INMATES - SHERIFF'S ALTERNATIVE
PROGRAMS

Personal service contracts agreements have been entered into by the Sheriff's Department and the following organizations.

RESIDENTIAL COUNTY PAROLE

<u>NAME OF PROVIDER</u>	<u>ANNUAL CONTRACT LIMIT</u>
Asian American Recovery Services, Inc.	\$62,415.00
Jelani House	83,200.00
Linda Connelly & Associates	292,000.00
Liberation House, Inc.	416,000.00
Milestone Human Services	925,145.00
Walden House	1,161,210.00

DESCRIPTION

Prisoners are placed in licensed residential substance abuse programs after a minimum of 30 days of in-jail program participation. Program placement is until the jail sentence would have otherwise been completed. This program was authorized by PC 3076 and established in 1993.

ELIGIBILITY

1. Referrals by sentencing court or court order authorizations for unsentenced prisoners.
2. County Parole Board consideration of jailed prisoners after minimum 30 days.
3. No fee is to be charged inmates for this program.

LOCATIONS (San Francisco)

Asian American Recovery Center - 2024 Hayes Street

Jelani House - 1601 Quesdad Street

Linda Connelly & Associates - 594 Howard Street
Liberation House, Inc. - 1724 Steiner Street
Milestone Human Services - 291 - Tenth Street
Walden House - 815 Buena Vista West

HOME DETENTION

DESCRIPTION

Prisoners are confined in their home except for pre-approved periods of employment, schooling, or counseling. Compliance with the curfew is verified by electronic equipment installed in the prisoner's home. A radio-signal anklet and a video monitor confirms the prisoner's presence in the home. DUI offenders have a breath alcohol tester installed in their homes. This program was authorized by PC 1203.016 and established in 1989.

ELIGIBILITY

1. Referrals by sentencing court in lieu of jail.
2. Court order authorization for non-sentenced prisoners.
3. \$50.00 registration plus \$30.00 per day (based on ability to pay).

SWAP/PREP

DESCRIPTION

Sheriff's Work Alternative Program (SWAP) and Post Release Program (PREP) are located at 930 Bryant Street. Prisoners are evaluated for educational and substance abuse counseling needs by Sheriff's Counselors. Prisoners are assigned to a combination of PREP classes and SWAP work crews. Classes and counseling are conducted Monday through Friday, and work crews, primarily DPW street cleaning, are seven days a week. Prisoners referred by the courts in lieu of jail must participate two days a week. Prisoners transferred from jail, during the 1st 60 days of their sentence, must participate five days a week, Monday through Friday. This program was authorized by PC

4024.2 and established 1981 (SWAP) and 1995 (PREP).

ELIGIBILITY

1. Referrals by sentencing court in lieu of jail (90 day sentence limit)
2. Jailed prisoners last 60 days of sentence.
3. \$50.00 registration plus \$3.00 per day. No fee if Monday-Friday participant.

COUNTY JAIL PROGRAMS

The Sheriff's Department provides an extensive general educational and testing program. When an individual is placed into custody, awaiting trial or after sentencing, he or she is tested to determine educational skills. The testing covers Writing, Social Studies, Mathematics, Literature, and Science. Based on their ability and offense, they are encouraged to participate in the various programs available.

GENERAL EDUCATION - ESTABLISHED 1992

For those individuals that have not graduated from High School or do not have a GED equivalent, a general education curriculum is available. On average, 450 inmates take one or more courses and 80% to 90% pass one or more subjects annually. Approximately 80 individuals passed the GED in 1998 and received their Certificate.

The Sheriff's Department has developed special programs for inmates that have been charged and convicted of specific crimes. These programs include the following:

S.I.S.T.E.R. (Sisters in Sober Treatment Empowered in Recovery) Program - Established 1992

This program provides educational and substance abuse counseling for women. The program is staffed by personnel from the Sheriff's Department, Walden House, Milpitas Adult Education, San Francisco City College, ARTS (Acupuncture Recovery Treatment Services) and Forensic Aids Project, as well as a number of volunteers and community based agencies.

The program is conducted at Jail #8. Activities commence at 7:30 a.m. and continue until 9:00 p.m., Monday through Friday.

ROADS (Road to Recovery) - Established 1994

The core components of Roads to Recovery are academics, substance abuse treatment, acupuncture, life skills, group and individual counseling, and a variety of specialized groups such as parenting and conflict resolution. Service providers include Milpitas Adult Education, Forensic Aids Project, and San Francisco City College, among others.

The program is provided for male inmates and is conducted at Jail #7. Activities commence at 6:00 a.m. and continue until 8:00 p.m., Monday through Friday.

R.S.V.P. (Resolve to Stop the Violence Project) - Established 1997

The program is based on the principles of Restorative Justice:

1. Crime is an offense against the community, not simply a violation against the state, and creates an obligation to make things right.
2. Victims have the right to be heard and to participate in the design and the operation of the program.
3. Offenders learn how to stop their violent behavior and are given the opportunity to understand, take responsibility for, and repair the harm they have done.

The program is provided for male inmates at Jail #7. Program activities are from 6:00 a.m. until 10:00 p.m., Monday through Saturday. The program is staffed by counselors from Manalife. Substance abuse counseling is provided by counselors from Milestone.

PERSONAL SERVICE CONTRACTS

Agreements have been entered into with organizations and individuals to provide services that can assist in the rehabilitation of inmates.

NAME OF PROVIDERANNUAL CONTRACT LIMIT

Acupuncture & Recovery Treatment Program	\$124,512.00
Beatriz Calderon	33,280.00
Bianka Ramirez	50,000.00
Community Works	120,000.00
Don DeNevi	16,900.00
Garden Project	117,000.00
Health Advocates Coalition	14,820.00
Jean O'Hara	13,000.00
Joseph W. Green	33,000.00
Lazanius Johnson	50,000.00
Manalife Education & Research Institute	284,007.00
Martha Tietz	25,626.00
Northern California Services League	20,000.00
Prison Match	9,880.00
Reverend Billy Ware	20,000.00
Robert Soto	18,304.00
Tides Center for Promise4	4,743.00

SERVICES PROVIDED BY ABOVE LISTED ORGANIZATIONS

- Acupuncture & Recovery Treatment Services - provide acupuncture detoxification and stress reduction for prisoners in the county jail.
- Beatriz Calderon - Assist at prisoner programs by maintaining daily program attendance records and ongoing prisoner program file management, set up worksheet for program staff and prepare appropriate documentation to identify and address operational needs, as well as providing office management for program staff.

- Bianka Ramirez - Coordinate victim restoration component of Sheriff's Resolve to Stop the Violence Project (R.S.V.P.); provide case management and other services for victims of R.S.V.P. participants.
- Community Works - provide art programs, creative writing, and theater workshops to county jail and post release participants in the Sheriff's Resolve to Stop the violence Program (R.S.V.P.) And other jail programs; related documentation, publicity and evaluations, provide victim services for R.S.V.P.; provide parenting classes to women in the county jail; provide orientation classes to monolingual Spanish speaking prisoners.
- Don DeNevi - provide reading, writing, and critical thinking classes to prisoners in the county jail using classics from American literature.
- Garden Project - provide classes in horticulture, gardening, and green house techniques for prisoners in the county jail and related horticulture and tree planting services.
- Health Advocates Coalition (Frederic Millen) - provide substance abuse classes for inmates at County Jail #2.
- James Kevin Allen - provide advocacy and legal counseling for prisoners in the county jail.
- Jean O'Hara - provide victim impact curriculum and classes for violent offenders in the Sheriff's Resolve to Stop the Violence Project (R.S.V.P.).
- Joseph W. Green - provide counseling and job development to prisoners at the county jail and post-release sites.
- Lazanius Johnson - provide inmate coordination and education for the Sheriff's Resolve to Stop the Violence Project (R.S.V.P.); facilitate transfer planning groups for participants being released from the program, coordinate referrals in the community.
- Manalife Education and Research Institute - provide male-role re-education classes, training and administrative tasks deemed necessary for men addressing issues of violent behavior in both the county jail and at the Sheriff's Post-Release Educational Program (PREP).
- Martha Tietz - maintain daily program attendance records and ongoing Prisoner Program file management, correspondence, and general administrative assistance.
- Nicholas Gregaratos - assist in running legal libraries within the county jail, provide information on a broad range of issues, and represent inmates at department rule violation

hearings.

- Northern California Service League - provide Life Skills classes including relapse prevention, job readiness, and communications to prisoners in the county jail.
- Prison Match - provide family and parent-child services for prisoners in the county jail.
- Rev. Billy Ware - provide counseling for religious needs of prisoners in the county jail.
- Robert Soto - provide relapse prevention courses and counseling to prisoners in the county jail to monolingual and bi-lingual Spanish speaking inmates.
- Tides Center for Promise - provide educational classes and support groups for incarcerated women addressing issues of prostitution and ways to exit this lifestyle; provide post-release support groups and administrative follow up for county jail clients at their office.

ADDITIONAL SERVICE CONTRACT AGREEMENTS

NAME OF PROVIDER

ANNUAL CONTRACT LIMIT

Center for Juvenile & Criminal Justice	\$121,800.00
S.F. Institute for Criminal Justice	842,380.00
S.F. Pretrial Diversion Project	566,000.00
James Kevin Allen	46,000.00
Nicholas Gregaratos	15,600.00

SERVICES TO BE PROVIDED BY CONTRACTOR

CENTER ON JUVENILE AND CRIMINAL JUSTICE

1. Interview and establish release plans for misdemeanors who do not qualify for release under Sheriff's Citation protocol.
2. Interview eligible custody, verify information, assess reliability, and evaluate criminal history.
3. Supervise "cited out" defendants until their court appearances, accomplished through: reminder calls, office visits, or field verification through follow-up phone calls.

4. Review housing cards routinely to determine if changes or circumstances have changed to enable some release mechanism previously ineligible for or denied.

SAN FRANCISCO INSTITUTE FOR CRIMINAL JUSTICE

1. Interview all persons arrested on non-warrant felony charges and on certain misdemeanor charges that are not citable by the Sheriff's Department who are booked into custody and are not immediately bailed or cited.
2. Verify information collected from the interview to the extent possible.
3. Compile data collected from interview, criminal records sheet, and the policy incident reports for review by the Municipal Court.
4. Make advance court reminder telephone calls to all persons on O.R. whenever feasible.
5. Assist the Court and Sheriff in implementing the O.R. program.
6. Perform such other bail functions as the Court may require, but unless additional funds and resources are provided, not to exceed those furnished by the contractor during the fiscal year.
7. Continue handling of probable cause at the request of the courts. The Contractor shall, to the extent possible, based on available funds, continue this service through fiscal year 98-99, but reserve the right to cease providing this service during the fiscal year if funding is not available.

S.F. PRETRIAL DIVERSION PROJECT

This provider has a broader range of duties, which include, but are not limited to, the following:

1. Description of Services for Pretrial Diversion Project
 - (a) Accept misdemeanor offenders referred by the Municipal Court for purpose of diverting them from the traditional criminal justice system.
 - (b) Provide offenders assistance in the areas of vocational training, job placement, educational assistance, personal counseling, and or public service.
2. Description of Service for Supervised Pretrial Release Project
 - (a) Screen all referred defendants for placement into the Supervised Pretrial Release Project after referral from or Commissioner/Municipal Court. Contractor will address

defendants with mental health and/or substance abuse problems, deal with homeless/indigent clients, and develop programs satisfactory to City which focus on special situational circumstances. Contractor will comply with the requirements and standards for the supervised Pretrial Release Project in existence on the date of this agreement, as such requirements and standards may, from time to time, be modified or supplemented with the prior approval or at the direction of the City.

3. Description of Services for Mentor Court Project

(a) Operation of Mentor Court Program

Contractor shall operate a Mentor Court program (the "MC Program") consisting of a rigorous educational development program into which certain youthful narcotics offenders will be diverted in lieu of formal criminal prosecution. Contractor shall carry out all directions of the Court and of City relating to the MC Program.

(b) Intake Process

The San Francisco District Attorney's (the "DA's Office") shall determine which individual case shall be referred for possible participation in the MC Program. Such determination shall be made in accordance with eligibility guidelines approved by the Court.

4. Particular Reporting Requirements

- (a) Without limiting the scope of the general reporting requirements contained in this Agreement, Contractor shall, as directed by the court, promptly provide regular status reports regarding each participant.

5. General Program Standards

- (a) Without limiting the scope of the foregoing, Contractor shall operate the MC Program in accordance with the requirements and standards for the MC Program in existence on the date of this Agreement, as such requirements and standards may, from time to time, be modified or supplemented with prior approval or at the direction of the Court or City.

SHERIFF'S INMATE WELFARE FUND

Operation of the Inmate Welfare Fund is regulated by Sections 4025 and 4026 of the California Penal Code and the California Administrative Code, Title 15, Section 1043.

The 1993-1994 Civil Grand Jury found several areas where the Sheriff's Department was not in compliance with the laws and regulations set forth. Following the Grand Jury Report, the Sheriff's Department took the necessary action to correct the had existed.

Currently, the Sheriff's Department has in its Policy and Procedures Manual, Section F-01, which outlines the practices to be followed with regard to the Inmate Welfare Fund.

PRISONER CASH ACCOUNTS

The Policy and Procedures Manual provides in Section F-09 for the establishment, maintenance, and disposition of prisoner's money while the prisoner is in custody of the San Francisco Sheriff's Department. A review of policies and procedures set forth in Section F-09 appears to be followed as stated.

COMMISSARY

A commissary store is maintained for prisoners that permits their use of personal funds for the purchase of approved items in order to enhance prisoners' morale and augment items available through the facility. Policy and Procedure used to regulated this operation is contained in Section F-10 in the Procedures Manual.

Profits from the commissary are turned over to the Inmate Welfare Fund. The following pages contain a copy of Income and Expenses for the Inmate Welfare Fund for the period from July 1, 1997, through June 30, 1998.

INMATE WELFARE FUND
1997-1998
JULY 1, 1997 - JUNE 30, 1998
AS OF SEPTEMBER 30, 1998

Balance Forwarded Into 1997-1998 Fiscal Year		
General Inmate Welfare Fund		\$408,082
Capital Improvement Inmate Welfare Fund		<u>189,306</u>
Total Balance Forwarded Into 1997 - 1998 Fiscal Year		\$597,388

Revenue 7/1/97 - 6/30/98		
General Inmate Welfare Fund	\$672,340	
Capital Improvement Welfare Fund	<u>45,038</u>	
Total Revenue		<u>717,378</u>

Available Funds by Sub-program		
General Inmate Welfare Fund	\$1,080,422	
Capital Improvement Welfare Fund	<u>234,344</u>	
Total Funds Available		<u>\$1,314,766</u>

<u>General Inmate Welfare Fund</u>		\$1,080,422
Available from above		

Expenditures 7/1/97 - 6/30/98		
Other Professional Services	\$494,196	
Other Supplies	113,326	
Permanent Salaries	34,818	
Payments to other governments	22,352	
Subscriptions	22,264	
Legal Services	15,370	
Other Equipment Maintenance	7,419	
Fringe Benefits	6,327	
Minor Furnishings	6,094	
Postage	2,979	
Other Services	2,616	
Overtime	2,457	
Food	2,386	
Other Equipment Maintenance Supplies	2,286	
Data Processing Supplies	1,915	
Recreation and Athletic Supplies	1,553	
Copy Machine	1,287	
Travel	1,172	
Small Tools & Instruments	1,019	
Other Building Maintenance Supplies	989	
Agricultural Supplies	784	
Painters Supplies	460	

Training	420	
Other Safety Supplies	330	
Plumbing Supplies	199	
Other Construction Supplies	198	
Office Supplies	125	
Electrical Supplies	119	
Office Equipment Maintenance	115	
Communications Supplies	53	
Membership Fees	50	
Hardware	29	
Fuels & Lubricants	27	
Auto Mileage	18	
Vehicle Parts & Supplies	3	
Total Expenditures		<u>\$745,755</u>

Unexpected balance General Inmate Welfare Fund 6/30/98 \$334,667

INMATE WELFARE FUND
1997-1998
JULY 1, 1997 - JUNE 30, 1998
AS OF SEPTEMBER 30, 1998

Unexpended balance General Inmate Welfare Fund 6/30/98 \$334,667

Encumbrances open on 6/30/98		
Other Professional Services	\$76,810	
Other Supplies	<u>16,291</u>	
Total Encumbrances open on 6/30/98		<u>93,101</u>

Unencumbered balance General Welfare Fund 6/30/98 \$241,566

Capital Improvement Inmate Welfare Fund

Available on previous page \$234,344

Expenditures 7/1/97 - 6/30/98		
Dept. Of Public Works - Construction Management	<u>\$1,631</u>	
Total Expenditures		<u>1,631</u>

Unexpended balance Capital Improvement Inmate Welfare Fund 6/30/98 \$232,713

Total Encumbrances open on 6/30/98 0

Unencumbered balance Capital Improvement Inmate Welfare Fund \$232,713

Total Unencumbered Balance \$474,279

SHERIFF'S BUREAU OF BUILDING SERVICES

The San Francisco Sheriff's Department established the "Sheriff's Bureau of Building Services" in 1995 in an attempt to provide better maintenance and repair services for the buildings and property under the direct control of the Sheriff. These premises include the following locations:

Jails 8 & 9, 425 Seventh Street, San Francisco

Programs Building, 930 Bryant Street, San Francisco

Treasure Island Brig, Shop, and Building 217, Treasure Island

Jails 3 & 7, 1 Moreland Drive, San Bruno

The current and additional engineering and maintenance staff requested for the fiscal year 1999/2000 is shown on the next page.

New Sheriff's Facility/Treasure Island Brig/Programs Building		
1	San Francisco Location - Includes Sheriff's Facility (County Jails #8 & #9), Programs Facility (930 Bryant Street) and Treasure Island Buildings (Brig, Shop, and Building 217)	
	Current Permanent Staffing Level	
	Current staffing coverage = Monday - Friday Day Shift	
7335	Senior Stationary Engineer	2
7334	Stationary Engineer (Maintenance & Repair - Day Shift)	2
7334	"As-Needed" Stationary Engineer	0.5
	Total Current Engineering Personnel	4.5
	Requested Additional Permanent Engineering Positions	
7120	Building & Grounds Superintendent	1
7334	Stationary Engineer (Maintenance & Repair - Day Shift)	3
7334	Stationary Engineer (M&R Swing & Graveyard)	4
	Subtotal Requested Additional Engineering Personnel	8
	Proposed Total Number of Positions	12.5

2	County Jail #3/#7/Learning Center Complex - Includes County Jails #3, #7, the Learning Center, 150 Acres of Grounds, Water Pumping Station, Sewer Pumping Station, Water Tank)	
	Current staffing coverage = 7 a.m. to 3:30 p.m., 7 days per week, overlapped with a swing shift (1 p.m. to 9:30 p.m.) 5 days per week	
	Current Permanent Engineering Positions	
7120	Buildings & Grounds Maintenance Superintendent	1
7335	Senior Stationary Engineer	1
7334	Stationary Engineer (Maintenance & Repair - Day Shift)	3
7334	Stationary Engineer (Maintenance & Repair - Swing Shift)	1
7334	"As-Needed" Stationary Engineer	0.5
	Total Current Engineering Personnel	6.5

2	County Jail #3/#7/Learning Center Complex - Includes County Jails #3, #7, the Learning Center, 150 Acres of Grounds, Water Pumping Station, Sewer Pumping Station, Water Tank) Continued	
	Current staffing coverage = 7 a.m. to 3:30 p.m., 7 days per week, overlapped with a swing shift (1 p.m. to 9:30 p.m.) 5 days per week	
	Requested Additional Permanent Engineering Position	
7335	Senior Stationary Engineer	1
7334	Stationary Engineer (Maintenance & Repair - Day Shift)	4
7334	Stationary Engineer (M&R Swing 7 Graveyard)	3
	Subtotal Requested Additional Engineering Personnel	8
	Proposed Total Number of Positions	14.5

With adequate staffing, the Sheriff's Bureau of Building Services could perform many of the repairs that are urgently needed. The work that can be done by the Sheriff's Bureau of Building Services will expedite the repairs and result in substantial savings.

One such example would be the repair of the window at County Jail #3. In the past the DPW/BBR came and repaired the cell windows at County Jail #3 by manufacturing and installing security screens over the cell windows, opening up the cell window frames and making the window mechanisms operational, and by installing new glass in the broken windows. They have spent over half a million dollars on these windows over the last several years (over \$80,000 per tier half), and the end result is that not all the windows have yet been repaired, the prisoners have broken most of the mechanisms and then broke out several window panes. Rather than spend another half a million dollars, the Sheriff's Department staff is installing security screens and Plexiglas at a cost of less than \$50,000 for the entire building.

SUMMARY "SBBS" WORK ORDERS

A computer program that generates work orders for ongoing routine maintenance for buildings and equipment and that keeps track of "user" repair request work orders is in use by the SBBS. A report

was requested and received from the Sheriff's Bureau of Building Services, detailing the number and type of work performed. Following is a summary of that report.

1. County Jails #8, #9, and Treasure Island Brig

There were 10,697 work orders requested for the twelve months period from January 1, 1998, to January 1, 1999. Approximately 8,500 were preventative and predictable maintenance tasks. The remaining 2,197 work orders were "user" repair requests. The backlog at that time was 103 requests.

2. Records for the San Mateo site (County Jail #3 and #7 Learning Center) for the last twelve month period from May 1, 1998, to May 1, 1999, indicates there were approximately 3,466 work order requests entered into the computer. Of this total, 2060 were computer-generated preventative and predictable maintenance tasks, while 1406 were "user" repair requests. The backlog at that time was 1,137 requests.

There will always be a need for the Sheriff's Department to use the resources of other City and County departments, primarily the Department of Public Works, Bureau of Building Repair, Bureau of Construction Management (SAR), and Bureau of Architecture and Engineering, and Water Department, as well as private contractors and consultants.

INTERDEPARTMENTAL WORK ORDERS

The Sheriff's Department, as with most City and County agencies, is required to have work performed by or through the Department of Public Works. The procedure requires the agency (Sheriff's Department) to prepare an "Interdepartmental Work Order" form specifying the work to be performed. This form is then sent to the Department of Public Works or other authorized agency for an estimate. The estimate, when completed, is returned to the Sheriff's Department for approval of the "Work Order" form. This form usually provides a description of the work to be performed and, in some cases, the estimated time to complete the work. The actual start and completion date

is not usually specified. There is no breakdown as to how the labor and material costs were determined. If approved, the Sheriff's Department requests a transfer of funds to the Department of Public Works or other authorized agency. These funds must be advanced before any work is started.

STAFFING

As of December 2, 1998, the sworn staff members of the Sheriff's Department, in addition to Sheriff Michael Hennessey, consisted of the following:

3	Chief Deputy Sheriffs
4	Sheriff's Captains
5	Sheriff's Lieutenants
6	Sheriff's Sergeants
7	Senior Deputy Sheriffs
8	Deputy Sheriffs (includes 6 Deputy Sheriff grant positions)

There are 783 sworn positions and 118.5 civilian positions, for a total of 901.5 budgeted positions.

The breakdown of sworn staff by facility and section, as of October 1998, is as follows:

SWORN STAFFING

<u>DIV/FAC</u>	<u>AUTH</u>	<u>CURRENT</u>	<u>PERCENT</u>
ADMINISTRATION AND COURT SERVICES DIVISION			
Chief Deputy	1	1	100%
Administration	8	8	
Personnel	3	2	66%
Budget	3	2	66%
Training	6	42	
Backgrounds	6	6	100%
Investigations	6	6	100%
Civil	15	11	73%
Courts	82	64	78%
SBBS	3	3	100%
CUSTODY DIVISION			
Chief Deputy & 1	2	2	100%
Cj #1	76	68	89%

CJ #2	81	75	92%
CJ #3	92	79	85%
CJ #7	63	55	87%
CJ #8	102	87	85%
CJ #9	78	69	88%
SFGH	21	18	85%
Classification	20	19	95%

FIELD AND SUPPORT SERVICES

Chief Deputy	1	1	100%
Station Transfer Unit	38 (Includes 3 Grant Positions)	32	84%
CWB	10	10	100%
Transportation	12	9	75%
Technical Services	5	5	83%
Treasure Island	22	1	9%

JAIL ALTERNATIVE PROGRAMS DIVISION

SWAP/CP/WSU	16 (Includes 2 Grant Positions)	14	
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TOTAL 773

Recently the Sheriff's Department has been given permission to administer testing for sworn positions of Deputy Sheriff.

A request was made for a breakdown of length of service for sworn personnel. We were informed that the Department is currently working on a comprehensive Personnel software package which will make this sort of information more readily available. A review of 750 currently employed sworn personnel was made and showed the following:

0 to 5 years service	373 (50%)
5 to 10 years service	138 (18%)
10 to 15 years service	89 (12%)
15 to 20 years service	58 (8%)
More than 20 years service	92 (12%)

TRAINING

The current training space is limited and is used primarily for ongoing training. The facility is located at 555 7th Street, San Francisco and consists of one classroom. Additional facilities are needed 3 or 4 times a year for training new officers. Currently, two classrooms are rented from the San Francisco Fire Department at the Fire Training Center on Treasure Island.

It is anticipated that the Sheriff's Department will acquire some space in the Training Center on Treasure Island, as a permanent facility in the near future.

INSPECTIONS REPORTS FROM CITY AND STATE AGENCIES

Members of the Civil Grand Jury toured all the jail facilities under the jurisdiction of the City and County of San Francisco. Of particular concern was Jail #3, located in San Bruno. Although the sworn staff, maintenance crews, and inmates make a sincere effort to keep the facility clean and in an acceptable state of repair, the structure has deteriorated to the extent that it is not possible.

The physical condition of the building was distressing to the members of the Grand Jury. It was agreed that immediate action must be taken to replace this structure for the health and safety of not only the inmates but also the Sheriff's Department personnel. Reports were requested and received from the following state and city agencies, charged with making such reports:

1. Board of Corrections (BOC) - Biennial Inspection - Penal Code Section 6031
2. State of California Fire Marshal
3. City and County of San Francisco, Department of Building Inspection
4. Department of Public Health

Reports were prepared and sent to the Sheriff's Department for review and to take necessary action.

On June 4, 1999, a meeting to review and discuss the findings by the City and State inspections was

held with Sheriff Hennessey and the jail facility commanders.

Commanders were given the opportunity to respond to each item and indicate the status of the comment. It is noted that a substantial number of items requiring action have been corrected. The remaining items, that need further attention, will be corrected as soon as possible and the inspecting agency so advised.

Nutritional Evaluation and Medical/Mental Health Evaluation inspections found "ALL JAILS" to be in compliance with applicable laws, rules, and regulations. No corrective action is required.

SUMMARY OF REPORTS

Board of Corrections, State of California

Biennial Inspection - Penal Code Section 6031

An inspection was made of the Sheriff's facilities in the San Francisco County jail system on December 8-10, 1998.

The facilities were inspected for compliance with the Minimum Standards for Local Detention Facilities, as outlined in Titles 15 and 24, California Code of Regulations (CCR). The inspection consisted of a "walk-through" of each physical plant and a review of policies and procedures governing the operation of each facility.

1. Fire Inspection Clearance

In coordination with local authorities, the State Fire Marshal is required to conduct annual fire inspections of all jails (sections 1314 and 13146.1) of the Health and Safety Code). The details of the Fire Marshals Report will be found under that title.

2. Health Inspections

All facilities have current, required health inspections (Health and Safety Code Section 101045). These inspections include evaluation of environmental, nutritional, and medical-mental health requirements. The Department of Health report will be summarized under that title.

3. Other Issues

(a) Staffing

The staffing appears to be one of the major challenges facing the detention facilities. The inspection identifies all facilities as being out of compliance with staffing requirements. This, according to the inspection, has been a growing problem and now appears critical.

It was estimated that nearly 400 of approximately 550 custodial staff positions had been filled since 1994. Recruitment has reportedly also not kept pace with attrition. Staff is optimistic that the recent hiring of a personnel analyst for the Sheriff's Department will enable them to maintain an open recruitment for staff and keep hiring lists current.

(b) Crowding

Crowding was not as critical an issue for this system as it has been in previous inspections, but is still a factor with which the department must reckon. Facilities populations were generally near Board Rated Capacities (BRC).

(c) Pilot Projects

The Board approved pilot projects for raised toilet areas and temporary restraining devices in the safety cells, and inmate-activated emergency cell buttons in County Jail #8 and County Jail #9.

Based on county reports, the "BOC" reviewed these projects in 1997-98, with

consideration for transitioning to a more permanent Alternate Means of Compliance (AMC). The “BOC” did not approve the temporary restraining devices in the safety cells in either facility, nor did it approve continuing the raised toilets in County Jail #8 cells. The temporary restraining devices need to be “padded over” and the raised toilets removed from County Jail #8 for the safety cells to be in compliance with regulations. The County received an “AMC” for the inmate-activated emergency cell buttons.

(d) Policy and Procedures

During the mid-1990's there were significant improvements in facility and division manuals for custody, medical, and mental health services. Medical and mental health manuals were referenced, but not reviewed during this inspection, but according to the BOC, they appear to be well maintained.

The inspection continued to emphasize review of detox, safety cell and restraint document logs with custody and health care staff. These areas require coordinated monitoring among custody and health care staff and the department has invested considerable time and effort in implementing policies that are appropriate to the system and consistent with Title 15.

(e) Grievance Procedure

The system is in compliance with grievance procedures. It is recommended that facility managers review policies and implementation practices for opportunities to simplify them.

Fire Marshal, State of California

On November 23, 1998, a fire and life safety inspection was conducted, as required by sections 13145

and 13146.1 of the Health and Safety Code. The Inspection was made of Jail #3 and #7, both located at #1 Moreland Drive, San Bruno, California. The Report was sent to Sheriff Hennessey January 29, 1999.

A summary of the report is as follows:

Jail #3

1. In the dorms, combustible containers are being used. Replace with the approved type.
2. The following fire extinguishers need to be mounted: Fire extinguisher in the Boiler Room, Laundry, Garage Storeroom (3), Fan Room, and Kitchen Food Storage.
3. The following fire extinguishers need to be serviced or replaced: Fire extinguisher in hose cabinet in kitchen-west wall, Educational Wing Classroom #4, Engineer's Shop, Laundry, Classifications Office, Garage Storeroom.
4. There are no plans in sight (if at all) for the remodeling of the Engineer's Shop and the Storeroom across from the Engineer's Shop. The walls have ½ inch gypsum board on one side of the wall only.
5. In the dorms, there are plastic shower curtains. It is not known if they meet the maximum flame-spread class. Provide the flame-spread class for the plastic shower curtains or remove them from the facility.
6. The emergency generator could not be tested. It was unknown how to transfer power. The facility needs to find out the procedure for testing the generator and post it at the generator.
7. The following areas do not meet the type of construction permitted for this facility: 4 South, 4 North, 3 South, 3 North. The walls are damaged and wood is exposed. Repair shall be made.
8. The following areas have unprotected penetrations that need to be repaired: 6th floor South above the fire doors, 6th floor North above the fire doors, 5th floor South above the fire doors, 2 South by smoke barriers, above Print Shop. The basement has numerous unprotected penetrations.

9. There is not waterflow alarm on the system. Install waterflow alarm as required.
10. No local waterflow alarm (tamper) is installed on the sprinkler system. Install local waterflow alarm as required.
11. Fire department connection caps are missing. Install caps on the fire department connections as required.
12. Holding cells medical infirmary has a painted sprinkler head. Replace painted sprinkler head.

Jail #7

1. Large paintings in exit need proof of flame retardancy or treatment.
2. The Southeast stairwell has mattresses stored under the stairs. Remove mattresses.
3. Space heaters without proper safety devices are in use in the following rooms: 230, 211 (2 in use), CJ Med 7 Nurses Station. Remove existing space heaters or replace with ones that have tip-over kill switches and temperature controlled shut-down thermostats.
4. Throughout both jails and the learning center combustible containers are being used. Replace existing waste containers with approved type.
5. The following fire extinguishers need to be mounted: Fire extinguisher in Control Room and fire extinguisher in Fire Alarm Control Room.
6. Two fire extinguishers by Computer Classroom 103 are past due for service (Learning Center). Have fire extinguishers serviced or replaced.
7. Sprinkler system:
 - (a) Sprinkler heads in the Sally Port area need cleaning.
 - (b) In the Library, sprinkler head is obstructed. Move objects so that they are no closer than 18 inches from the sprinkler head deflector.
8. The facility has white resin chairs in use throughout the facility. It is not known if they meet the maximum flame-spread class. Provide the flame-spread class for the white resin chairs or remove them from the facility.
9. The dorms have separation curtains that have no flame-spread class indicated on

- them. Facility needs to prove the flame-spread class for these curtains.
10. The following doors did not close and latch with the self-closing device: Room 225; Officer's Dining, Room 217; Room 216. Maintain the doors as self closing.
 11. In the following areas, the fireproofing has been worn away:
 - (a) C Dorm: fireproofing missing above dorm Deputy Station.
 - (b) F Dorm: fireproofing missing above dorm Deputy Station.

Department of Building Inspection

The Department of Building Inspection conducted an inspection of the jails under the jurisdiction of the City and County of San Francisco. Deficiencies and corrective action to be taken is as follows:

Jail #1 (6th floor) and Jail #2 (7th floor), Hall of Justice, 850 Bryant Street

Inspection made April 20, 1999

1. Install permanent Evacuation Signs at all exit doors leading to the stairways at 6th and 7th floor. Temporary Evacuation Signs should be posted in the interim.
2. Provide EXIT signs above the exit doors indicating exit path from the Kitchen at the 7th floor.
3. In the 7th floor corridor, the fire door closed improperly without latching due to the paint and the tape binding the hinges.
4. Replace missing door self-closer at the corridor fire door to the Dentist Office.
5. Require Stairway Identification Signs at each floor level of all enclosed stairways. (Copy of Section 1006.16 San Francisco Building Code and ID Sign Diagram attached)
6. Need illuminated exit signs at all exit doors to the stairways and at the corridors with or without arrow indicating direction of the pathway to the exit door.
7. Faire caulk holes and pipe penetration through the fire-rated corridors and stairways.
8. At the 7th floor Gymnasium, relocate the fire sprinklers blocked by the steel beams on each side from the underside of the roof to the underside of the steel beams for proper fire

extinguishing system.

9. Repair the leaking pipe in mechanical closet CW 21 at 6th floor.
10. At 6th and 7th floors of Jail 1 and 2, the staff rooms, corridors, and inmate cells lack fire-extinguishing systems. A partial fire sprinklers system was installed in several locations such as the Gymnasium, Medical Examination Room, Pharmaceutical Storage Room, and Training Room.
11. Install exhaust fan in the laundry closet at the 6th floor.
12. The clothes dryer exhaust shall be connected with ducts extending to exterior wall or roof. The vent outlet shall also have draft damper.
13. Replace the burned-out lamp in the illuminated EXIT sign at 7th floor.

Jails #3 and #7, San Bruno

Inspection Made May 12, 1999

1. Install permanent Evacuation Signs at all exit doors leading to the stairway and to the public way. Temporary Evacuation Signs should be posted in the interim.
2. Need EXIT signs above the exit doors indicating exit path from the Kitchen at the Jail #3.
3. Install security door with remote control door release and remove the padlock at the Kitchen exit door.
4. Relocate the plant behind the exit door of the Dining Room.
5. Require Stairway Identification Signs at each floor level of all enclosed stairways. (Copy of Section 1006.16 San Francisco Building Code and ID Sign Diagram attached.)
6. Need illuminated exit signs at all exit doors to the stairways and at the corridors with or without arrow indicating direction of the pathway to the exit door.
7. Provide proper signage and parking and loading zone striping with international wheelchair symbol for the accessible parking space. (Diagram attached)
8. Remove the locker and metal frame from the closet in Jail #7.
9. Place label on door of the closet with fire sprinkler inspection test valve.
10. In Jail #7, the Women and Men accessible bathrooms lack the international symbol for

restroom identification and ADA permanent Room ID Signage. (See the attached diagram.)

11. Lower the first aid cabinet and breathing apparatus cabinet to 27" above the floor.
12. Adjust door self-closer to close properly with latching at Jail #7 Medical Office.
13. Each Dormitory shall have 64 inmates maximum to comply with Section 470A.2.8 San Francisco Building Code. There were 50 single beds and 12 double beds at Dorm "A" exceeding the maximum 64 allowable inmates. Remove the 5 excess double beds.
14. Remove book case and file cabinets blocking the exit corridor.
15. Corridor fire door shall be maintained self-closing. Remove door rubber stop preventing the fire door to be self-closing in Jail #7
16. Install door self-closer at the corridor doors and door to the Maintenance Shop.

Jails #8 and #9, 425 - 7th Street

Inspection Made May 18, 1999

1. Install permanent Evacuation Signs at all exit doors leading to the stairway and to the public way. Temporary Evacuation Signs should be posted in the interim.
2. Reset door self-closer at all fire doors to the medical treatment rooms and holding cells.
3. Remove the rubber door stops preventing the fire doors to be self-closing.
4. Patch the hold in wall above the counter facing the holding cells.
5. Provide floor door stop and replace missing wall tiles at the Lobby bathroom.
6. Relocate book cases, file cabinets, chairs, tables, plastic trays, and wall ornaments from the fire-rated corridor. The Exit corridor shall be maintained clear and unobstructed.
7. Require Stairway Identification Signs at each floor level of all enclosed stairway. (Copy of Section 1006.16 San Francisco Building Code and ID Sign Diagram attached)
8. Provide proper signage and parking and loading zone striping with international wheelchair symbol for the accessible parking space. (Diagram attached)
9. Place label on door of the accessible bathroom with fire hose cabinet.
10. The women and men accessible bathrooms lack the international symbol for restroom identification and ADA permanent Room ID Signage. (See the attached diagram.)

11. Lower the fire extinguisher cabinet and breathing apparatus cabinet to 27" above floor.
12. Provide labels to storage rooms, janitorial rooms, and electrical rooms.
13. At 5th floor Jail, replace the damaged corridor fire door and repair the leaking faucet in the accessible Men's Bathroom.
14. Remount the fire extinguisher at 48 inches maximum above the floor.
15. Fire caulk the conduits through electrical room fire wall and ceiling.
16. Interior stairways to the Control Center in the Pods shall have 2" wide contrasting strips at the top and bottom step.
17. Paper signs shall be replaced with permanent signs.
18. Need metal pan under the grease trap overflow.
19. Replace plastic bucket with metal pan under the air diffuser.
20. Remove the peel-off old paint from the wall and ceiling and repaint the surfaces.
21. Remove plastic garbage can and bookcase in the accessible bathroom.
22. Mount fire extinguisher on wall in the generator room.
23. Repair loose vehicle detector at the entrance room.
24. Construct a noncombustible landing, stairway, and guardrails from the exit door onto the roof.
25. Remove plans file, boxes, and cabinet blocking access the top floor accessible bathroom.

Department of Public Health

The Department of Public Health conducted inspections of "ALL CITY AND COUNTY JAIL FACILITIES," including "COURT HOLDING CELLS." These inspections took place during February 1999. The inspections covered the following:

1. Environmental Health (ENV-HEALTH)
2. Nutritional Evaluation
3. Medical/Mental Health Evaluation

Jail #1 - Environmental Health

- (7) Shortage of sheets, towels, tee shirts reported.
- (12) Shortages of sheets and towels reported
- (15) Staff complains that hot water is not hot enough.
- (17) Men's classification area stuffy and dusty. Ventilation duct work may need cleaning throughout County Jail #1.
- (19) Several overhead lights need repair in the men's classification area.
- (20)
 - TB Screening Area not clean, no hand soap or towels
 - Women's side Dorm gate will not lock.
 - Only one "good" key for safety Cell #1 (Women's side)
 - Women's Dorm Area - A window crank has been broken for one month. Window is open and inmates are cold.
 - Visiting Room telephone handsets are cracked and deteriorated and no longer easily cleanable.
- (21)
 - (Women's side) Clothes dryer must be vented to the outside air, and lint accumulation is to be removed regularly. (From 1998, 1997)
 - Provide laundry detergent so clothes don't have to be washed in hand soap (Women's side)
 - Discontinue Durashine floor wax use in this jail (from 1998) (Women's side)
 - All Jails: Adequate staffing must be maintained for safety of inmates and staff (from 1998 report). One facility is at 76% of authorized staffing levels. One facility has two new classrooms but only one can be used due to inadequate staffing levels.

Jail #2 - Environmental Health

- (7) Shortage of women's clothing reported.
- (12) Shortages of sheets and towels reported.
- (16) Gym skylight has small rain leak.
- (17) Improved, comfortable temperatures were being maintained at time of inspections. Main holding tanks get far less use now that County Jail #9 is open.

- (20) – One washing machine is out of order.
- Visiting Room telephone handsets are cracked and deteriorated and no longer easily cleanable.

Jail #2 - California Uniform Retail Food Facilities Law

- (9) Pharmacy staff reports two recent waste water backups into their offices. The water contained food particles which implicates the Kitchen, in particular, the mop sink which does not have a screen over the drain. A screen needs to be installed and procedures initiated to prevent large particles of food from getting into drains.

It is suggested that the floor drains in the Pharmacy office be capped if possible.

- (10) – A new steamer has been installed under a vent hood, eliminating the safety hazard and improving the indoor air quality.
- Flues are being cleaned every 6 months.

Jail #3 - Environmental Health

- (2) Improper defrosting and handling potentially hazardous foods; inadequate hand washing facilities.
- (5) Shortage of work boots for kitchen workers.
- (6) Clothing Exchange Log Book is incomplete. Unable to verify that mandatory changes are being made.
- (7) Shortage of sweatshirts, towels, underwear.
- (13) Unable to verify, due to insufficient record keeping, that washable items such as sheets, mattress covers and towels are exchanged at least once each week.
- (15) – Yard toilets are filthy. Deteriorated enclosure is a safety hazard with rusted metal, crumbling mortar.
- Shower enclosures on all tiers are rotted through. Plaster is crumbling on exterior surfaces.
- Toilet bowls, wash basins, drinking fountains, and showers are not clean.
- (16) – Drips and leaks, peeling paint, and plastic sheeting over windows noted in several cells and dorms, also in Pill Room, medical area.

- Window replacement is in progress but not complete.
 - Broken and missing glass in dorm toilet rooms.
 - Kitchen window screens contain rubbish.
- (17) Improved, comfortable temperatures were being maintained at time of inspection. Main holding tanks get far less use now that County Jail #9 is open.
- (20) – Sanitation, Safety, and Maintenance Policy and Procedures need to be updated.
- Replace insulation around steam pipes in 2N and elsewhere if deteriorated. Repair urinal in 2N.
- One washing machine out of order.
- (22) Continuing mouse problem in food storage areas.

Jail # 3 - California Uniform Retail Food Facilities Law

- (1) Repair broken floor tiles and reseal the floor.
- (3) – Mouse droppings were observed in food storage area near loading dock as on previous inspections.
- There are no fly screens on kitchen windows. Many windows are broken and contain garbage, refuse, kitchen trays, etc., between the window frame and the security screens outside.
- (4) – Provide additional lighting by replacing existing light bulbs with newer, brighter ones in each fixture (Same as 1998)
- Replace broken light covers in meat room and provide covers or sleeves for all lights. (Same as 1998 report)
- (7) Toilet room for inmate workers has no door or fly screens.
- (8) – Hand sink was vandalized and never replaced.
- In the produce prep room and the meat cutting room there were no hand soap and towels available. No signs.
- (10) – Two years ago it was noted that the cutting board in the produce prep room was not longer cleanable and should be removed. This table-size board is still in use.
- The ice machine is in very poor sanitary condition and the door needs repair or

replacement.

- The dishwasher was out of order at the time of inspection.
 - A complete set of grease filters is required for the vent hood.
 - Hot water steamer leaks scalding water from many seams and is a safety hazard to everyone working there.
- (11) The dishwasher was out of order at the time of inspection.
- (16) - State and Federal codes now require cold foods to be kept at or below 41F.
- (Meat Cutting Room) Chicken breasts were being “defrosted” in a sink full of stagnant, warm tap water (67-71F)
 - Freshly roasted turkey (sliced) was at 68F.
 - Cold cuts were at 58F.
 - Raw chicken thighs were at 67F.
- (19) Steam table on serving line not repaired (1998 report).
- (26) - One hand sink and soap dispensers were vandalized and never replaced.
- In the produce prep room and the meat cutting room there were not hand soap or paper towels available. No signs.

Jail #7 - Environment Health

- (7) Shortage of everything reported.
- (15) - Education corridor water fountain not draining and not clean and does not have adequate water pressure.
- Education corridor janitor closet mop sink contains muddy standing water. Floor and walls very dirty.
 - Leak between this closet and the adjacent Classroom “C” has not been repaired.
- (16) - Rain leaks into front exterior corridors.
- Janitor closet next to Classroom “C” needs to be sealed to prevent further water damage to classroom.
- (17) - Dust accumulated on ventilation grillwork in dorms. A lift is required to reach grills and light fixtures. There is no lift on sight, it must be borrowed from 850 Bryant.

- Ventilation noticeably inadequate throughout.
- (21) - For the safety of inmates and staff, installation of a secure, enclosed walkway between the main building and the education building (as now exists between jails 3 and 7) is strongly recommended.
- All facilities except County Jail #8: All need to obtain updated MSDS for each chemical in use, and keep this information in an accessible location.

Jail #8 - Environmental Health

- (2) Improperly cleaning, sanitizing, and drying serving trays (Same as 1998)
- (6) There is a schedule, but there is not way to verify the mandated changes in other-garments, because no record is being kept. Same comment for undergarments.
- (13) Unable to verify, due to insufficient record keeping, that washable items such as sheets, mattress covers, and towels are exchanged at least once each week.
- (15) Showers, sinks, and restroom walls and floors remain unsatisfactory, structurally and operationally. Paint is peeling and floor covering has become loose.
- (16) - Replacement of substandard concrete work has not taken place.
- Restroom walls and flooring show rapid deterioration in this new facility, due to lack of ventilation.
- (17) there is a noticeable stuffiness throughout, and excessive humidity in toilet/shower rooms causing paint and flooring deterioration and mold growth. Staff reports dissatisfaction, especially in medical suites. A professional assessment/adjustment is needed.
- (19) This facility should be checked for adequate lighting at desk level.
- (22) Housekeeping not satisfactory.

Jail #8 - California Uniform Retail Food Facilities Law

- (1) Medical offices below kitchen report some recent leaks.
- (8) Hand sink in dish room had not soap or towels and was covered by dirty utensils.
- (9) Several dripping faucets seen in the kitchen and pantries. They require a lot of force to fully

shut off the water.

- (10) – Serving trays are not being adequately cleaned or sanitized or properly dried.
- Ice scoop is being improperly stored inside the ice maker. It appears that the external scoop holder is not the right size and needs to be changed.
- (11) – Dishwasher temperature gauges are very difficult to read because of a buildup of grease. They also are difficult to clean. It is recommended that desired temperatures be marked on the surrounding dial as a visual aid in determining proper functioning of the machine.
- Wash temperature was below the required 140F.
- Rinse temperature must be above 180F to sanitize and promote the quick air drying of the trays. Rinse temperatures not adequate (as in 1998).
- Improper stacking of dirty, wet trays is still being practiced, as in 1998. These unsafe practices continue to present an unacceptable risk for the transmission of disease. Better supervision and additional training of kitchen staff is needed.
- It is again recommended that proper dishwasher functioning and operation, and the cleanliness and proper air drying of trays be part of the weekly self-inspection performed by staff of the Sheriff's Department.
- As in 1998, additional dishwasher racks or other drying racks must be available to allow for the required air drying of serving trays before they are stacked.
- (16) Staff Dining Room, milk refrigerator was at 48F.
- (19) Staff Dining Room, food on steam table is at 115F.

Jail #9 - Environmental Health

- (21) Safety Cell #2: Emergency call light not working.

Court Holding Cells, 850 Bryant Street

- (6) – Vinyl-clad fixtures are deteriorated and difficult to clean.
- Water faucet overshoots basin.

- (7) – Toilet in Tank 25 particularly dirty.
- Walls are disfigured with graffiti and paint is peeling.
- Complete and proper repainting of holding cells should take place annually.
- (8) Ventilation continues to be poor, 30 or more persons may be held in a loft by 25ft cell which is stuffy even when empty.
- (11) Crowding, poor ventilation and minimal monitoring (no audio or camera) combine to create a potentially unsafe environment.
- (12) Housekeeping is only marginal.

TREASURE ISLAND (NAVY BRIG)

In an attempt to elevate the over crowded conditions at Jail #3, in San Bruno, and other jail facilities, it was decided that the Treasure Island Brig could be renovated to accommodate approximately 136 prisoners.

The decision to use the Treasure Island Brig, was based on the assumption that the Sheriff's Department would be able to close floors 4, 5, and 6 at Jail #3, in San Bruno. The staff from this facility could then be reassigned to Treasure Island. It was assumed that the reduction in operational cost at Jail #3 could be used to offset some of the additional expenses that would be incurred at the Treasure Island facility. Unfortunately, the ability to use Treasure Island Brig is now in question. This is due to the fact that the prisoner count has increased significantly and the ability to close any housing floor at San Bruno does not seem likely. There also are not enough Sworn Officers to staff both facilities.

It was originally anticipated that the Treasure Island Brig would be completed and in operation by December 1998. Although completed, this facility has not yet been placed into operation to house prisoners.

This renovation, as of June 1, 1999, has cost approximately \$1,500,000.00 to ready the facility for

occupancy. The estimated annual operational cost of this facility would be approximately \$5,855,500.00 including Jail Health Service cost. Based on 136 prisoners, the estimated cost would be approximately \$134.00 per inmate per day. This inmate cost per day is substantially higher than the other facilities. It is undecided, at this time, when this facility could be put in use.

It is the opinion of the Grand Jury that this facility has not proved to be a practical solution, as was intended. Further expenditures and use of this facility should be carefully considered.

SAN BRUNO JAIL #3

County Jail #3, located at 1 Moreland Drive, San Bruno, became operational July 2, 1934.

The building is six stories in height. In addition to housing facilities for the prisoners, there is a cooking area, laundry, medical dispensary, and office area. When originally constructed, it was intended to house approximately 750 prisoners.

For many years this facility has deteriorated because of obsolescence, unobtainable replacement parts, and lack of funds to adequately maintain the premises. In 1992 and again in 1994 Propositions were presented to the voters of San Francisco for approval to construct a new jail to replace Jail #3. Both Propositions failed to pass.

In May 1991, an "Action" was filed with the United States District Court, Northern District of California. This Action is titled Jones vs. City and County of San Francisco, et. al, No. C91-3453 and is pending before the Honorable William H. Orrick, Jr. This "Action" challenged conditions of confinement at the City's Jail #3 in San Bruno, as being in violation of constitutional requirements.

As the result of this litigation, the number of prisoners has been reduced to 551 and many other items have been or are in the process of being corrected. The key issue is still the replacement of Jail #3.

Due to the failure of the San Francisco voters to approve a bond measure to construct a new jail to replace Jail #3, the City has determined that its only solution is to enter into an agreement with pre-qualified teams. There were five such teams selected and criteria packages, defining the scope of the replacement jail, were sent to them. On December 7, 1998, two teams responded with proposals. Their proposals were evaluated and rated according to objective criteria and on March 12, 1999, the City notified Morse-Diesel International/Prison Realty Trust ("Morse-Diesel") that it had been ranked first and that the City would begin negotiations with it to building the replacement Jail #3. The City anticipates concluding these negotiations and submitting a proposed contract to the Board of Supervisors in the summer of 1999. If negotiations with Morse-Diesel do not result in a proposed contract, the City will then enter into negotiations with the second team, San Bruno Jail LLC, comprised of Salomon, Smith, Barney, and Turner Construction Company. If approved by the Board, the City expects the new jail will be ready for occupancy in the year 2002.

A meeting was held with Deputy City Attorney Joanne Hoeper to discuss the progress being made regarding the construction of the new Jail #3 and the status of the Settlement Agreement. Details regarding the contract for construction of the new jail were not available, except in a general sense, due to negotiations still being conducted. It was disclosed that the new jail would probably be constructed in front of or to the right of the present Jail #3. The structure will be three stories in height and the jail will be of the "Pod" type.

It is the opinion of the Grand Jury that the replacement of Jail #3 is long overdue and action should be taken to replace this facility as soon as possible. Unfortunately, due to the fact that the voters of San Francisco failed to pass a bond issued for the replacement of Jail #3, the cost of the proposed plan will be substantially higher.

SETTLEMENT AGREEMENT, JONES vs. CITY AND COUNTY OF SAN FRANCISCO

Pursuant to a Court Order dated February 26, 1999, plaintiffs and defendants, through their counsel,

entered into a Settlement Agreement, which has been approved by the San Francisco Board of Supervisors. This agreement will culminate the action that was started in May 1991. The Agreement was filed with the United States District Court, Northern District of California on May 3, 1999.

Included as a condition of the Settlement Agreement is a requirement that the City pay damages of \$4,200 to each of the seven individually named plaintiffs, for a total of \$29,400 and will pay plaintiffs' counsel a total of \$585,000 in attorneys' fees for all work done on this action until the date of dismissal by the Court.

Expenses to the City and County of San Francisco, for the services of the Office of the City Attorney, to defend this action, have not been calculated. It is reasonable to expect that these fees could equal or exceed those of the plaintiffs' counsel.

RESPONSES REQUIRED

Mayor

Board of Supervisors

Sheriff

TREASURE ISLAND



TREASURE ISLAND

INTRODUCTION

The 1998-99 Civil Grand Jury examined several areas concerning the Treasure Island (TI) and Yerba Buena Island (YBI) development projects. The following is a summary of activities that have occurred or are in progress.

- Housing - The John Stewart Company is now actively engaged in renovating old Navy housing units on TI to bring them up to date for rental.
- Navy Brig - The Sheriff's Department has brought the former naval brig to code to meet municipal and State Prison specifications.
- Marina - Bids are out to several developers.
- Bay Bridge - Much controversy exists concerning new footings and alignment for a replacement span.
- Facilities - Programs have been developed to generate revenue through rental of facilities for concerts, flea markets, motion picture and television production.
- Training - Plans are underway to develop facilities for Police and Fire Department training Academies.

HOUSING

The Navy owns TI and YBI and the City leases these properties from them. As a result, the Navy must first approve any development by the City. The Navy approved a plan to have the John Stewart Co. renovate and rent two, three, and four bedroom housing units.

San Francisco city employees are offered first priority in property rental as follows: police department personnel, fire department personnel, and SFUSD personnel (teachers). Next, college students are offered the rental property, and lastly the general public. There is a total of 766 of these units

available. Also interspersed are 266 units for the “Homeless.” These “Homeless” are employed residents of San Francisco with no permanent housing.

Due to the *Tidelands Trust Act* that applies to all state coastal property, no new development may take place on “fill” (landfill) property. For example, TI was created from landfill from the Bay around a smaller natural island. Yerba Buena Island is a natural island and is not affected by the provisions of the *Tidelands Trust Act*. Existing buildings and structures may live out their “useful life” which could be from twenty to forty years. At this time the *Trust* prohibits any major remodeling such as renting two units and tearing out a common wall. To comply with this restriction, the current renovation program is on a seven-year basis. Everything is to be reviewed in 2006-2007. The Grand Jury sees problems in the long term as the best sites, i.e., most solid, have been appropriated by the state for programs such as the Youth Job Corps leaving mainly the land fill area around the northern perimeter of the island for housing development.

There is a problem with the current water and sewer lines because they were originally installed using Navy “standards” that are well below the standards and specifications of the San Francisco Public Utilities Commission (PUC). The John Stewart Co., with the direction of the TI Project Director, AnnMarie Conroy, is on a “fix as needed” program with regard to pipe repair and replacement. If a pipe bursts for any reason, the PUC or Department of Public Works are contacted for repairs. As now exists in San Francisco, there is no five-year plan for the replacement of old pipes on Treasure Island. The problem of broken sewer and water pipes will worsen as the land fill naturally compacts and is further compacted by increased vehicle traffic and the settling of buildings and roads causing the substandard piping to stretch and break.

Additionally, on TI the PUC is responsible for the repair of pipe all the way to the outside wall of the buildings. Within San Francisco, the PUC is responsible only for repairs from the street to the curb of the sidewalk and the owner of the property is responsible for repairs between the curb and the building.

THE BRIG

It is the Grand Jury's understanding that as part of the City's agreement with the Navy, the brig on Treasure Island had to be brought up to code before any other considerations for the island's use and staffing could be implemented. Details regarding this topic can be found in the Grand Jury's report on the Sheriff's Department.

MARINA

Bids for a general developer are presently being reviewed, but as of now, no activity other than this current program is in effect.

BAY BRIDGE

The Bay Bridge retrofit has become a political football with Mayor Willie Brown, Jr., and Mayor Jerry Brown of Oakland against Governor Davis. Governor Davis is striving for acceptance of the state and CALTRANS' plan for the relocation of the bridge, while both mayors oppose the plan and endorse their own plans.

While the bridge does not directly affect Treasure Island because it crosses Yerba Buena Island, it has some side effects that could. Building a bypass will be necessary before the old span can be removed and the new bridge can be built. This bypass would be built north of the present roadway and could interfere with future marina development.

FACILITIES

Presently, to make TI an ongoing and profitable enterprise, programs are in place to generate revenue through the use of its facilities. Private parties, concerts, corporate events, and similar events have been held in the main terminal building or adjacent facilities and have been a success. One problem

apparently is that much of the public is unaware these facilities are available for public use.

The Sunday flea market has also provided the public with access to TI and could be used as a source of advertising for TI and its facilities.

The Walt Disney Company and the Nash Bridges television show are regular users of the facilities and they are attracting other film and television companies to TI.

POLICE AND FIRE DEPARTMENT TRAINING FACILITIES

Two facilities left by the Navy relate to training. The fire training facility is state of the art but designed for ship fires. It could be modified for training in high rise fire fighting. Another facility is being considered as the new site of the Police Department Academy which also trains members of the Sheriff's Department.

The reasoning to move the Police Academy from its present location in Diamond Heights to Treasure Island is that a bigger and more modern school could be built. This would enable the SFPD to solicit other law enforcement agencies from around the state to send their trainees to San Francisco for training. The Grand Jury doubts that this is viable since other metropolitan police departments around the state already solicit and provide training to personnel from other communities. However, we commend the Police Department's efforts and ideas to maximize the use of the proposed training facility on Treasure Island.

FINDINGS

1. The Grand Jury feels that the Navy has left the City an enormous cash eating machine.
2. Amenities such as food services, recreational facilities, and heating all require large outlays in money and personnel.
3. It could take more time than what the *Tidelands Trust* allows for the project to break even.

RECOMMENDATIONS

1. The City should negotiate with the *Trust* for extensions.
2. More information on the costs and effects of the Bay Bridge Alignment is needed.
3. Analysis of the cost of the rentals against the cost of the replacement of the utilities and what happens after seven years or 2006 is needed.

Treasure Island is definitely a jewel, but could carry a curse like the Hope diamond.

REQUIRED RESPONSES

Mayor

Director of the Treasure Island Project

Public Utilities Commission

Department of Public Works

